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## CONCEPTUAL FUNDAMENTALS OF ESTABLISHMENT OF FREE ECONOMIC ZONES IN UZBEKISTAN

**Abstract:** *The article analyzes free economic zones, their essence, the legal basis for their organization, the specific ways of establishing free economic zones in the region. A free economic zone is said to be an economic category of the ancient world, the Middle Ages and the present. They have come a long way in their development. The simple colors of the ancient world have evolved over the centuries into the complex colors of modern civilization. With the onset of the 21st century, FEZs have become global in nature and an important attribute of the national economy in countries around the world. During the transition from the second millennium to the third, we are witnessing a rapid increase in the number of FEZs on the planet.*

**Keywords:** *free economic zone, tourist zone, free production zones, free scientific and technical zones, small industrial zones, tourist opportunities, techno parks, regional innovation centers, techno polices.*

### Introduction

In accordance with the Law of the Republic of Uzbekistan "On Free Economic Zones", a free economic zone is a specially designated area with clearly defined administrative boundaries and a separate legal order, created to attract domestic and foreign capital, advanced technology and management experience for rapid socio-economic development of the region. Legal entities and citizens (individuals) are allowed to engage in any economic, financial and other activities on the territory of the free economic zone, except for activities prohibited by the legislation of the Republic of Uzbekistan. The legislation on free economic zones consists of this Law and other legislative acts [1].

World experience shows that sustainable economic growth can be achieved only by increasing the investment activity of population and attracting a wide range of domestic and foreign investors. The experience of a number of countries shows that a very effective tool to stimulate investment activity is the creation of free economic zones. Customs duties, taxation, subsidies, pricing, the establishment of special preferential treatment in the currency and the application of specific mechanisms attract a large amount of financial, material, technological and labor resources. As a result, economic potential will grow rapidly, foreign exchange earnings will increase, the domestic market will be enriched with competitive goods and services, and exports will increase. All this has a positive impact on the development of the region and the country. Taxes and other benefits, relatively cheap local labor, simplify procedures for import and export of raw materials and manufactured goods, attract a large number of foreign firms to come and work in such areas. This, in turn, will lead to the introduction of unprecedented technologies in the region and the country, and the emergence of modern industries. In addition, according to ILO experts, FEZs are usually a school that trains local staff in new jobs and allow some workers to start their own businesses later, earning higher than the national average.

For countries that have just gained independence, such as Uzbekistan, the FEZ is an important tool for strengthening economic independence, developing market relations and improving the welfare of the people.

### Analysis of the relevant literature

In this regard, D. Yu.Khojamkulov [2], M.Kamalov, M.Kurbanov [3] have written textbooks, manuals, other educational and scientific pamphlets on the rights of free economic zones. However, in these works, information about free economic zones is given in general terms, and information based on the activities of a particular region is not fully reflected.

The definition of FEZ in the economic literature varies. Russian scientist Fominskiy I.P. in a textbook published under the direction of is defined as a specific territory that gives the FEZ privileges over the general economic order of business adopted in that country.

In short, the dictionary of foreign economic activity defines that "FEZ - a special area with preferential currency - financial and tax arrangements, encouraged to operate with foreign capital".

Basil A. and Germedis D. in the definition of FEZ also solves some aspects of this phenomenon: EIH is an administratively, in some cases geographically defined area with a special status, which implies the free import of equipment and other goods for export production. The special status usually includes favorable legal conditions and tax procedures that provide benefits to foreign investors.

### **Research methodology**

Methods such as comparison, trend analysis, horizontal analysis, vertical analysis, comparative analysis, SWOT analysis were used in the research process.

### **Results and discussion**

The history of the development of FEZs goes back a long way. In the ancient world, the Phoenicians, Egyptians, and Chinese used simple forms of FEZs to promote foreign trade. Joining those who say that the history of the FEZ dates back to the Phoenician period, it can be said that they were indeed interested in the development of international trade and separated areas that were exempt from traditional taxes and duties. The principles of FEZ activity can be found in the trade cities of ancient Phenicia, Greece, Rome. These cities created the right, privileges, and generally favorable conditions for traders to enter and leave their goods without any barriers, safe, and in some cases duty-free.

Initially, a free economic zone was a large seaport separated from the customs area of the country for the free and duty-free entry and exit of goods, and a railway station, airport, or special area in an adjoining area. Such areas are still preserved. The use of such FEZs allows the sale of goods at a reasonable price when demand arises. "Free ports" appeared before such areas. In them the goods are stored duty free. "Free ports" were first established to develop the local market, and then to expand international trade. It is therefore true that the creation of FEZs began with major seaports. These territories were the first to be separated from the country's customs territory. In those days, the territories came out as "free harbor", "free port".

A free port is a special area of the port designed for duty-free warehousing, first looking for buyers in the domestic market and then in search of assistance in entering foreign markets. Goods brought to such areas were not only classified, but also subjected to primary processing. Later, the importance and status of commodity processing increased. The first known free port in history was Carthage in 814 BC. In ancient Greece, the island of Delos was considered one of the first free trade zones. As for the Eastern civilization, in ancient and medieval times, our ancestors established centers with certain privileges in the caravanserais located on the Great Silk Road. These centers served to reduce, facilitate, and accelerate trade. These centers were the peculiar FEZs of their time.

The oldest, yet simplest form of FEZs were warehousing and transit areas. They emerged during the birth of international economic relations. These types of FEZs were developed by American scientists M.S. Fraze and R. Ren. They noted that it allowed businesses to collect, inspect, sort, label, pack and reload goods under conditions free of customs duties and other state charges.

The free economic zone is established by the decision of the President of the Republic of Uzbekistan. The status of a free economic zone, as well as how long it will be established, will be determined by the decision on the establishment of this zone.

Free production zones include export-oriented production zones, acropolises, business zones, industrial-economic zones and others.

Free scientific and technical zones consist of separate zones, where research, production and training centers are concentrated, and a special legal order is established for them, aimed at developing scientific and production capabilities.

Free scientific and technical zones are organized in the form of high-tech zones, techno parks, regional innovation centers – techno polises.

The free economic zone will be developed in accordance with the program approved by the Cabinet of Ministers of the Republic of Uzbekistan.

**Table 1**

**Description of free tourist zones planned to be established in Uzbekistan[4]**

| <b>Free tourist areas</b>             | <b>Location Area</b>   | <b>Land area</b>              | <b>Sponsored by the state or company</b>                        | <b>Amount intended for allocation</b> |
|---------------------------------------|------------------------|-------------------------------|---|---------------------------------------|
| Free tourist zone "Charvak"           | <b>Tashkent region</b> | 334,8 km <sup>2</sup> .       | <b>Consortium of French Companies French Development Agency</b> | 750 thousand euros                    |
| "Zomin" tourist and recreational zone | Jizzakh region         | 2,87 thousand km <sup>2</sup> | IDEALIST company of the Republic of Turkey                      | 250 million dollars                   |
| Small tourist zone "Shovot"           | Khorezm region         | 0,46 thousand km <sup>2</sup> | French Development Agency                                       | 250 thousand euros                    |
| Small tourist zone "Govuk Lake"       | Khorezm region         | 0,1 thousand km <sup>2</sup>  | French Development Agency                                       | 250 thousand euros                    |

A number of works in this area are being carried out in Uzbekistan, as well. Today, there are 14 free economic zones in the country, some of which are more active. In particular, in Navoi, Angren, Jizzakh, Urgut, Gijduvan, Kokand and Hazarasp free economic zones 62 projects that worth \$486 million have been implemented, furthermore 4,600 more jobs have been created.

So far, 1,021 projects worth 535 billion sums have been implemented in these zones, and more than 9,600 jobs have been created. The projects produce light industry, chemical, food, electrical products, modern building materials, furniture and other finished products, which are in demand not only in the domestic but also in foreign markets. In addition, it is planned to create 11,000 new jobs in the future as a result of the implementation of 248 projects.

It is impossible to effectively use the economic potential of the regions on the basis of financing the socio-economic development of the regions only by financing from the state budget or bank loans. In this regard, increasing the social responsibility of the private sector, the implementation of projects on the basis of public-private partnership also play an important role in the implementation of strategic tasks. Taking advantage of these opportunities, a number of projects worth about \$ 2.2 billion are being implemented across the regions in the fields of energy, utilities, health, water management, education, ecology and environmental protection.

In the process of analyzing the situation of free economic zones in the same region, we have made several observations in this regard. If we look at the situation in the Bukhara region, according to 2021, there are 2 SEZs "Gijduvon" and SEZ "Bukhara-Agro" in the region. The following is an analysis of the benefits provided to these FEZs by the state.

|   |  |
|---|--|
| Gijduvon Free Economic Zone   |  |
| The land area   | 267,5 hectares   |
| <i><b>The Gijduvon Free Economic Zone has a special customs zone regime</b></i>                                     |  |
| Investors   | 32   |
| Projects  | 38   |
| The total cost  | \$140,7 million  |
| Number of people  | 2533   |
| Production in 2020  | \$28.5 million, including exports of \$17.0 million dollars  |
| The journey to the international airport  | 40 minutes   |
| to the train station  | 30 minutes   |
| Export market:  | China, Russia, Kazakhstan, Turkey, Afghanistan, Korea, Germany, India, Belarus, Ukraine  |
| Main directions   | Deep processing of fruits, vegetables and other agricultural products, packaging and storage of textiles, carpet weaving shoes and leather-haberdashery, environmentally friendly chemical industry, pharmaceutical, food, electrical industry, machinery and automotive, building materials, etc.   |
| Participants of the Gijduvon Free Economic Zone are exempt from:  | <ul style="list-style-type: none"> <li>• property tax;</li> <li>• land tax;</li> <li>• water use tax.</li> </ul>   |
| FEZ participants are exempted from the following customs duties:  | <ul style="list-style-type: none"> <li>• customs payments for construction materials not produced in the country and imported in the prescribed manner during the construction period to implement the investment project in accordance with the investment agreement (excluding value added tax and customs clearance fees);</li> <li>• customs duties (except for customs clearance fees) for import of technological equipment on the approved list, which is not produced in the Republic of Uzbekistan;</li> <li>• When importing into the territory of the Republic of Uzbekistan raw materials, supplies and components used by FEZ participants for production and sale of products for export, no customs duties (except for customs clearance fees) are paid.</li> </ul> |
| The above benefits are provided in the amount of 3 to 10 years, depending on the size of the investment, including: | <ul style="list-style-type: none"> <li>• for investments from 300 thousand US dollars to 3 million US dollars - for a period of 3 years;</li> <li>• Investments from \$ 3 million to \$ 5 million - for a period of 5 years;</li> <li>• Investments from \$ 5 million to \$ 10 million - for a period of 7 years;</li> <li>• With an investment of \$ 10 million or more - for a period of 10 years, with income tax and single tax rates for the next 5 years applied at a rate 50% lower than current rates.</li> </ul>  |
| The main supply of the economic zone:   | Highways<br>Gas supply<br>Power supply<br>Water supply<br>Sewage<br>Internet support   |

Measures are being taken to effectively use the tourism potential of the country, to promote the national cultural heritage to the national and international community, to develop pilgrimage tourism, eco-tourism, gastronomic tourism and their infrastructure. In 2021, the funds allocated for the regional tourism infrastructure program were as follows:

**Table 2**

**Funds allocated for the tourism infrastructure program in 2021 by regions, in billions of sums.**

| <b>Regions</b>                 | <b>billion sums</b> | <b>as a percentage of</b> |
|--------------------------------|---------------------|---------------------------|
| Andijon                        | 29,9                | 2,9                       |
| Bukhara                        | 82,9                | 8,3                       |
| Jizzax                         | 91,5                | 9,1                       |
| Qashqadaryo                    | 85                  | 8,5                       |
| Navoi                          | 54,7                | 5,5                       |
| Namangan                       | 37,5                | 3,7                       |
| Samarkand                      | 135,1               | 13,5                      |
| Surxondaryo                    | 57,1                | 5,7                       |
| Sirdaryo                       | 4,5                 | 0,4                       |
| Tashkent                       | 48,4                | 4,8                       |
| Fergana                        | 33,8                | 3,4                       |
| Khorezm                        | 238,4               | 23,8                      |
| Tashkent city                  | 16,4                | 1,6                       |
| The Republic of Karakalpakstan | 84,9                | 8,5                       |
| Total                          | 1000,1              | 99,7                      |

From the table above, it can be concluded that the composition of funds allocated for the tourism infrastructure program in 2021 by regions has changed as follows:

In terms of the structure of funds allocated for the tourism infrastructure program by region, the highest rate was observed in Khorezm region, which amounted to 238.4 billion sums. In terms of regions, the lowest rate was observed in Syrdarya region, which amounted to 4.5 billion sums. In this table, it can be seen that the amount of funds allocated to the Bukhara region for the tourism infrastructure program amounted to 82.9 billion sums, and its share in the total funding was 8.5%.

In recent years, the country, as one of the strategic sectors of the national economy, has been consistently implementing comprehensive measures to develop tourism, which is aimed at its rapid development, creating new jobs, increasing incomes, improving living standards and quality, as well as increasing investment attractiveness.

In January-September 2021, the number of foreigners visiting the Republic of Uzbekistan for tourism purposes amounted to 1135.6 thousand people. This figure was 1349.9 thousand people in the same period of previous year. The number of foreigners visiting Uzbekistan decreased by 214.3 thousand people compared to the same period of previous year.

At the same time, in January-September 2021, the number of citizens of the Republic of Uzbekistan who went for tourism amounted to 1446.2 thousand people, in January-September last year this figure was 1639.4 thousand people. The number of citizens who went abroad decreased by 193.2 thousand people compared to the same period of previous year.

**Table 3**

**Peculiarities of the organization of free tourist zones in the region. (SWOT analysis)**

|  |  |
|--|--|
| Existing opportunities for the establishment of free tourist zones in the region | Problems in the organization of free tourist zones in the region   |
| High availability of production and resource potential of the region             | In some free economic zones, issues related to the connection to engineering and communication networks and the construction of production |

|   |   |
|---|---|
|   | infrastructure facilities have not yet been resolved. This makes it difficult to attract investors.   |
| High level of tourism potential of the region   | Directorates of free economic zones do not take sufficient initiatives to submit proposals to commercial banks for the implementation of new investment projects.   |
| High level of investment potential of the region to attract foreign investment  | as a result of the placement of projects in free economic zones by some municipalities without clear calculations, artificial preferences are given for certain types of activities, which, in turn, leads to a deterioration of the competitive environment in the market.   |
| Existence of localization of production of high-tech products on the basis of establishment of strong cooperative relations on the basis of local raw materials and development of industrial cooperation between the enterprises of free economic zones and in the republic as a whole | One of the challenges is to strengthen the organizational and legal framework for additional opportunities, benefits and preferences provided to existing free economic zones and small industries, as well as business entities and entrepreneurs operating in the pharmaceutical zones, exporting, creating innovative, high-tech industries. |

### Conclusion

In addition to EHZs in the region, the establishment of free tourist zones (FTZs) is also considered expedient.

Peculiarities of the organization of free tourist zones in the Bukhara region according to the results of SWOT analysis reveal that the tourist potential of the region is very high, the region is rich in ancient architectural monuments, it is advisable to develop all areas of tourism.

In particular, the possibilities of developing the following tourist services in the region have been studied.

1. Rural tourism
2. Jayloo tourism
3. Gastronomic tourism
4. Festival tourism
5. Pilgrimage tourism
6. Medical tourism
7. Shopping tourism
8. Ecotourism

In this regard, based on the internal and external potential of the region, it's concluded that it is necessary to establish FTZ (Free Tourism Zones) within the FEZ. For example, if we organize FTZs within the Gijduvon Free Economic Zone, it would be possible to develop not only domestic but also foreign tourism. As, people living in this area directly involved in shopping tourism, pilgrimage and trade. If we take into account leisure tourism in this process, people will find that both spiritual and physical recreation, being in the embrace of nature, air and sun baths are extremely useful in strengthening the body.

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## **DIGITAL TOURISM AS AN IMPORTANT ECONOMIC DEVELOPMENT FACTOR**

### **Abstract**

**Background.** Digital tourism avows “travelers” to recreate all of the stories and emotions