



Foreign Experience of FEZ Management in Uzbekistan

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Abstract

The article considers foreign experience (on the example of Poland) in the development of FEZ in Uzbekistan, gives conclusions and suggestions based on the results of the analysis.

Keywords: *FEZ; Innovative Development; Polish Experience; Economic Reforms*

Introduction

Recently, the organization and development of free economic zones in Poland have been used as a means of regional policy and innovation development to create an effective system of public administration of the socio-economic development of the country and its regions [1, pp. 113-120].

The Main Findings and Results

The main objective of the Free Economic Zones (FEZ) in Poland was to stimulate economic life in depressed areas with high unemployment. Therefore, in practice, FEZ has become an administratively separate part of the territory of Poland, intended for economic activities on preferential terms. In Poland, FEZ is one of the most important tools for regional policy implementation. With their support, cooperation with foreign companies becomes more effective, and foreign direct investment is attracted. There are currently 14 free economic zones in Poland, most of which have sub-zones [2].

Main advantages for investors of Polish free economic zones:

- full exemption for a period equal to half of the period specified as the duration of the zone;
- 50 per cent of tax credits for the second period;

Simplified procedures for the sale of property and inheritance;

- 10 year exemption from property tax.

Entrepreneurs carrying out business activities in the FEZ territory are granted: tax incentives (exemption from income tax on legal entities or individuals depending on the organizational and legal

form of the enterprise, and in some regions also from real estate tax) the beginning of economic activity in a specially prepared territory, as well as administrative - can count on the support of the Governor of the Special Economic Zone in organizational matters. In Poland, the local FEZ is managed by a joint-stock company specially created for each zone. In order to take advantage of regional support for entrepreneurship, an investor needs to obtain a permit to conduct trade and economic activities within the boundaries of the FEZ.

Table 1 List of active EEZs in Poland [3]

1. Kamennogursk FEZ (Kamienogórska Specjalna Strefa Ekonomiczna)	8. Slupska FEZ (Slupska Specjalna Strefa Ekonomiczna)
2. Katovitsk FEZ (Katowicka Specjalna Strefa Ekonomiczna)	9. " Starachowice " FEZ (Specjalna Strefa Ekonomiczna "Starachowice")
3. Kosshinsko-Slubitsk FEZ (Kostrzyńsko-Slubicka Specjalna Strefa Ekonomiczna)	10. Suvalkska FEZ (Suwalska Specjalna Strefa Ekonomiczna)
4. " Krakow Technology Park " FEZ (Krakowska Specjalna Strefa Ekonomiczna – Krakowski Park Technologiczny)	11. Tarnobjegsk FEZ (Tarnobrzaska Specjalna Strefa Ekonomiczna "EURO-PARK WISŁOSAN")
5. Legnitsk FEZ (Legnicka Specjalna Strefa Ekonomiczna)	12. Warminsko-Masurska FEZ (Warmińsko-Mazurska Specjalna Strefa Ekonomiczna)
6. "EUROPARK" Melets FEZ (Specjalna Strefa Ekonomiczna EURO-PARK MIELEC)	13. Walbjixka SEZ (Wałbrzyska Specjalna Strefa Ekonomiczna)
7. Pomorskie FEZ (Pomorska Specjalna Strefa Ekonomiczna)	14. Lodzinski FEZ (Łódzka Specjalna

Today we can say with confidence that the legal framework and practice of the Special Economic Zones in Poland have proved to be very attractive for investors. Thanks to the activities of FEZ foreign capital was attracted, thousands of new jobs were created; enterprises were able to use new technologies. The economic situation in the regions has improved.

Interest in Polish FEZs is due to the extent of their use (created in all regions of the country) and state support. Other Eastern European countries approached this regional development institution more cautiously. In addition, Polish SEZ residents are mainly domestically oriented, which distinguishes them from export-oriented Chinese FEZs. Poland has a very favorable geographical position and is located in the center of Eastern Europe, participating in the management of both intra-European and international traffic flows passing through its territory. In addition, due to the customs protection of the EU market from foreign manufacturers and the low wages of Polish workers compared to other EU countries, a boom in factories in the country began. Poland is called the "China of Europe" because there are many industries that produce serial products of medium technological level. The main trade market is the European Union [4].

Another favorable factor for the establishment of FEZ is the availability of significant production, infrastructure and human resources. At the beginning of the FEZ program, the Polish economy had a diversified character, including many production facilities for technological products for the countries of the Council for Mutual Economic Assistance. The Ministry of Economic Development acted as the initiator of the FEZ creation program in Poland. The ministry's agenda includes attracting foreign

investments and technologies, modernization of national industry, integration into world production chains (primarily Europe) and organization of product export. The formal framework of the process was determined by the requirements of the World Trade Organization, which Poland joined a year after the establishment of the first free economic zones, and later - the European Union, according to which special economic regimes were allowed only in less developed regions. But these requirements were clearly formal in nature and were followed only when it was convenient, and decisions on the creation of FEZs were mainly administrative and political in nature [5].

FEZs in Poland were one of the central elements of the economic policy, so the initiators of the program carried out very aggressive marketing. (The monitoring of Polish FEZs by two consulting companies, KPMG and EY, speaks volumes).

The developed incentive system allowed the investor to receive a certain amount of profit from investments inside the economic zone - choosing one or another calculation mechanism (capital costs or created jobs) to count on the FEZ credit calculated as the maximum possible tax savings of the investor.

The second component of the calculation is the assessment of the possibility of full use of the benefits granted by the investor during the economic zone. Several regions were created at the same time (uniting hundreds of places), which created more attractive conditions for investors than in all other countries of the European Union. In particular, after the extension of the FEZ in 2012 until 2026 (after which the FEZs will turn into ordinary industrial parks), Poland will give investors the opportunity to use incentives for another ten years, which will significantly increase their profit from the dislocation on the territory of Poland.

At the same time, FEZ investors are not restricted from general support measures, including benefits provided by the European Union (EU). It provides for the exemption from corporate income tax from legal entities until 2026 (the period of FEZ operation). The amount of tax benefits is 30-70% of the investment volume (depending on the area and scale of the business) or, as desired, provides compensation for two years' expenses for each job created. The actual size (amount) of the support depends on the rating of the project, the scale of the business (from 2014, for large companies, from 15 to 50% of costs, for medium-sized companies - from 25 to 60%, for small companies - from 35 to 70% tax relief), also depends on its location.

Table 2 Comparative conditions of business organization in special economic regimes of some countries [6]

Poland	<ul style="list-style-type: none"> - exemption from paying corporate income tax from legal entities is provided until 2026 (the period of operation of FEZ). The amount of tax credits is 30-70% of the amount of investments made (depending on the area and scale of the business) or, as desired, provides compensation for two years' expenses for each job created; - exempting individuals from income tax; - privileges can be provided in the private area that can be included in the FEZ.
Slovenia	<ul style="list-style-type: none"> - reducing the corporate income tax base by 40% from equipment and intangible assets, by 100% from research and development expenses, by 45% from the first 24-month salary of newly hired employees; - special conditions for Pomurje region - reduction of the tax base for corporate income tax in the amount of 70% of the value of equipment and intangible assets.

Bulgaria	<ul style="list-style-type: none"> - accelerated two-year depreciation for computer equipment and production equipment - exemption from VAT on equipment import for two years after the start of the project - special measures in accordance with the law on investment promotion (Investment Promotion Act) (supporting business priorities) - operative administrative services, support for personnel training
Slovakia	<ul style="list-style-type: none"> - exemption from taxes for ten years - a grant or discount from the market price when transferring real estate - Subsidies for the purchase of fixed assets, created jobs, training of employees
Latvia	<ul style="list-style-type: none"> - reduction of real estate, corporate income tax rates by 80 percent (the amount of tax benefits is limited to 15-25 percent of the volume of investments made); - income tax on dividends, payments to management and royalties paid by non-residents (license premium in the form of periodic deductions from profits received for the right to use licensed goods, inventions, patents, know-how, film distribution, etc.); - 0% VAT on most goods and services
Lithuania	<ul style="list-style-type: none"> - six-year exemption from corporate income tax, 50% tax rate reduction for the next ten years
Turkey	<ul style="list-style-type: none"> - "investment certificate" benefits: reduction of corporate income tax by 50-90%, subsidization of interest rates on loans, exemption from social insurance payments, income tax, import VAT and customs duties.
China	<ul style="list-style-type: none"> - five-year tax holidays (exemption in the first two years and 50% reduction in the next three years), which can be extended up to ten years for certain business lines - reduction of the tax base in the amount of 150% of research and development of new technologies and products
Russia	<ul style="list-style-type: none"> - reduction of the tax rate on corporate income (profit) for industrial and production FEZs by 30-40% and more (exemption from the federal rate, reduction of the regional rate) - reducing the rates of allocations to the pension fund, social and medical insurance funds by almost 60% in the period until 2017, by 40% in 2018, and by 20% in 2019; - exemption from property tax for up to ten years (can be extended by the law of the constituent entity of the Russian Federation) - exemption from payment of transport taxes for a period of 5-10 years from the date of vehicle registration - Exemption of FEZ residents from paying land tax for a period of 5-10 years

	- exemption from payment of customs duties, taxes, as well as waiver of non-tariff regulatory measures;
Belarus	- exemption from income tax for 10 years from the date of profit declaration; - Exemption from payment of real estate tax for buildings and structures located in FEZ territory; - exemption from paying rent and land tax for land plots located on the borders of the FEZ during the design, construction and economic activities; - customs benefits for export of goods outside the territory of the FEZ
Uzbekistan [7]	- exemption from a single tax payment (STP) (depending on the volume of direct investments from 3 million euros to 10 million euros - for 7 years, from 10 million to 30 million euros for 10 years, over 30 million euros for 15 years) - The STP rate will be reduced by 50% from the current rate. Depending on the volume of foreign direct investments from 10 to 30 million euros - 5 years after the end of the 10-year grace period, more than 30 million euros - 10 years after the end of the 15-year grace period; - Exemption from payment for investments from 3 million to 10 million euros - 7 years, from 10 million to 30 million euros - 10 years, more than 30 million euros - 15 years - exemption from payment of land tax - exemption from customs fees (except for customs clearance fees)

In addition to tax incentives, investors in Poland are supported within the framework of the most important investment support program for the Polish economy in 2011-2020. The investor can choose the appropriate form of support - either compensation up to PLN 15,600 per job created, or compensation for part of the capital costs (10% in the field of research and up to 7.5% for other activities).

Of interest is the focused work of the State Agency for Foreign Investments on attracting investors from certain countries, studying the current trade flows between the countries in order to look for potential opportunities for locating foreign businesses in Polish SEZs. However, competition for investment is increasing. For example, Slovakia wants to offer larger financial grants to investors, which could reduce interest in Polish SEZs. Although the Polish authorities announced today that they are not planning any drastic measures and new incentives for investors, it is impossible to deny the stimulation of investment activity.

Conclusions and Recommendations

Taking into account the Polish experience, we can offer the following [1]:

1. It is necessary to use the potential of FEZ territories not only as a tool of regional policy, but also as an industrial policy tool.

At the same time, in order for regions with separate economic regimes to become a real tool of regional politics, it is necessary to give more privileges to peripheral regions and autonomies, in particular, FEZs that do not have autonomy in decision-making.

We also believe that for the implementation of industrial policy, it is necessary to look for targeted bases for investors, to direct their initiative to solve certain socio-economic problems, to build production, technological or sales chains - this will ensure business stability not only in the period of benefits, but also in the future.

2. It is desirable to activate cooperation with Polish colleagues (along with South Korea) on establishing a mechanism of activity of FEZs in Uzbekistan, applying their experience and optimizing conditions for finding enterprises with FEZs.
3. It is necessary to carry out appropriate monitoring on the development of SEZ areas (area available for investors, support conditions, conditions of use, etc.) and to strengthen investment motives due to the fact that the demand for local factors is saturated (reduction of requirements for objects in obtaining special status, increase of targeted support measures, etc.), at the same time, keeping the conditions for using SEZ infrastructure and preferences for Uzbek companies equal to foreign companies, which creates conditions for innovative clusters.

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