

THEORETICAL AND PRACTICAL ASPECTS OF THE DEVELOPMENT OF FREE ECONOMIC ZONES IN THE MODERN ECONOMY

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Abstract: This article examines the concept of free economic zones (FEZ), their significance in the modern economy, and the principles of their operation. The contribution of FEZs to economic development is analyzed using international experience and the example of Uzbekistan. Additionally, the article provides a detailed review of the key principles of establishing and managing FEZs, their role in implementing modern technologies, as well as the legal and institutional foundations of FEZ operations.

Key words: free economic zones (FEZ), special economic and small industrial zones, investments, investment projects, modern technologies.

INTRODUCTION

The modern economy is characterized by globalization processes and the deepening of international economic relations. In such conditions, Free Economic Zones (FEZs) are recognized as an important mechanism in the socio-economic development of countries. FEZs serve as an effective tool for countries and regions to access global markets, attract investments, create new jobs, and implement advanced technologies.

Globally, the development of economic zones and the improvement of their effectiveness require continuous research and refinement. Today, free economic zones are not only centers for attracting investment but also act as key drivers in activating socio-economic processes in regions.

This article analyzes the theoretical foundations and practical development characteristics of free economic zones in the context of the modern economy. In particular, the role of FEZs in the global economy, their influence on shaping a country's internal and external economic policy, and the conditions created for both domestic and foreign investors are examined.

Since gaining independence, the Republic of Uzbekistan has paid special attention to the establishment of free economic zones as one of the key directions of economic reforms. Through FEZs, the country aims to attract advanced technologies, supply the domestic market with modern products, increase export potential, and create new jobs. Especially during the period of 2019–2023, the increase in the number of FEZs and the volume of investment projects implemented in them has created significant opportunities for the national economy. However, ensuring investment returns and the sustainable development of these zones remains a pressing issue.

From this point of view, the article is aimed at studying the theoretical aspects of free economic zones, analyzing current practices, and developing proposals and recommendations to enhance their socio-economic efficiency. The scientific and practical significance of the article lies in its contribution to a well-founded evaluation of FEZ development trends in the modern economy and to providing scientifically grounded conclusions for their effective utilization.

REVIEW OF LITERATURE

There are various approaches in the literature concerning the development of free economic zones (FEZs) and their economic impact. In a study conducted by Kolko J. and Neumark D., the effectiveness of FEZs in job creation is analyzed. Zeng D.Z., by examining global experiences of FEZs in China and Africa, highlights their economic efficiency. In the context of Uzbekistan, Mirzaliyeva S.S. assesses the role of FEZs in economic development in her research. Additionally, Evstafyeva A.Kh. explores the role of FEZs in ensuring regional economic security.

Other researchers, including V.P. Popov and his colleagues, have studied the legal frameworks of FEZ operations, particularly focusing on tax and customs incentives, labor usage conditions, and infrastructure issues. Economic studies from Western countries analyze both the positive and negative impacts of FEZs on economic growth. These studies demonstrate the level of state-provided incentives in FEZs and their role in stimulating the private sector. The experience of China, especially during Deng Xiaoping's economic reforms, and the role of FEZs in attracting international investments, is thoroughly analyzed by Zeng D.Z. Such experiences are highly relevant in deriving specific conclusions for Uzbekistan.

Among the academic views on the establishment and development of FEZs, key themes such as ensuring national economic security, enhancing export potential, and developing local industry have always held central importance. Notably, research carried out in Russia and other CIS countries sheds light on the strategic significance of economic zones.

RESEARCH METHODOLOGY

This research is based on data gathered from reports of international financial institutions, official publications of central banks, and scholarly articles related to the banking system. The collected data was analyzed using statistical and comparative methods to identify the factors influencing the economic development impact of FEZs. An empirical approach was adopted throughout the analysis, relying on observed results.

ANALYSIS AND RESULTS

Although free economic zones (FEZs) are referred to differently in various countries, their main objective is to attract capital investment and promote macroeconomic growth. Analyzing the practices of South Korea, China, and Uzbekistan reveals that offering additional incentives by reducing tax and customs burdens in FEZs significantly increases capital inflows. Specifically, in Uzbekistan, investment projects implemented in FEZs between 2017 and 2023 led to the creation of over 5,000 new jobs and a doubling of export volumes.

Currently, studying the establishment and management processes of small industrial zones in Uzbekistan holds significant economic relevance. This is due to the need for a thorough analysis of their economic efficiency and industrial production capacities. Therefore, examining the dynamics of production capacity in Uzbekistan's special economic and small industrial zones during 2017–2020 is considered a crucial task. The statistical data collected during this period provides a solid foundation for identifying development trends in small industrial zones and for designing effective future management strategies (see Figure 1).

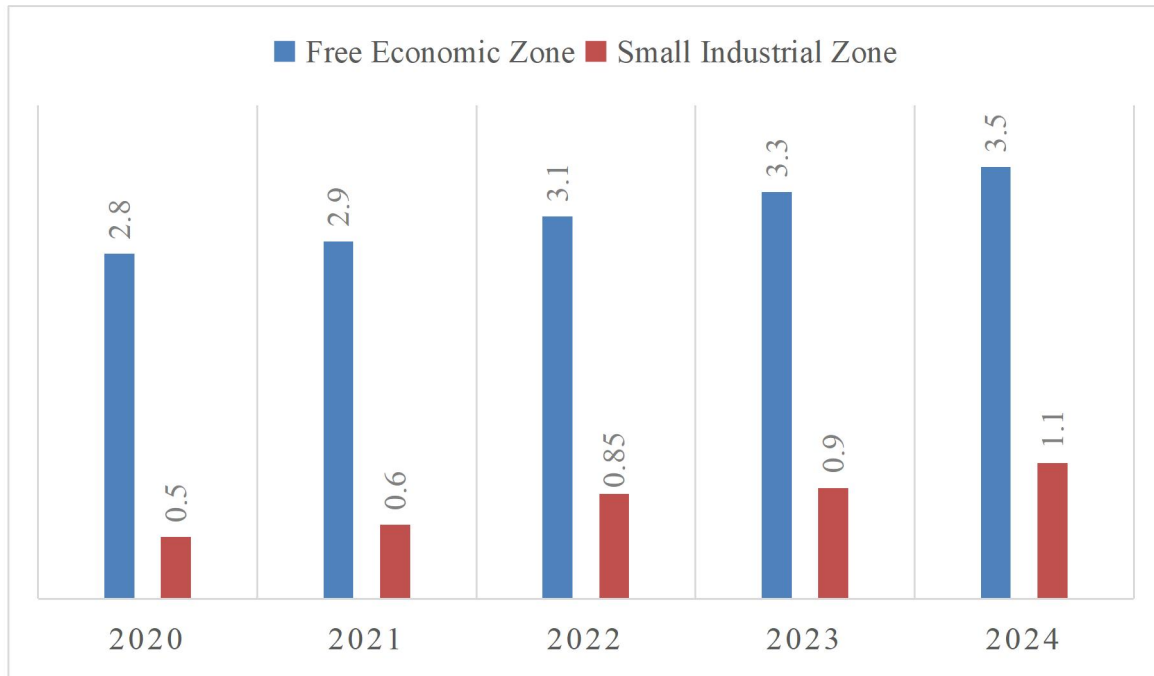


Figure 1. Production Capacity in Special Economic and Small Industrial Zones in the Republic of Uzbekistan

Figure 1 The data presented in Figure 1 demonstrate the average growth in the share of products manufactured by Free Economic Zones (FEZs) and Small Industrial Zones (SIZs) in the total industrial output of Uzbekistan during 2019–2023. The FEZs' share rose from 2.8% in 2019 to 3.5% in 2023, while the SIZs' share increased from 0.5% to 1.1%. These figures confirm the growing importance of these zones in the country's industrial development.

FEZs are becoming increasingly significant within Uzbekistan's industrial landscape. The sharp growth in their contribution reflects the diversification of activities within these zones, the introduction of high-tech sectors, and their overall economic efficiency.

Although the specialization of SIZs is more limited, the doubling of their share indicates the effectiveness of economic reforms. This positive dynamic may be attributed to inter-sectoral integration and improved investor engagement.

The annual average growth rate of FEZs stands at approximately 0.2–0.3%, highlighting their leading role in industrial development. Although SIZs show relatively lower growth rates, their quantitative expansion signals promising future potential—largely influenced by sector-specific reforms and effective utilization of local resources.

The increasing share of industrial production from FEZs and SIZs in the national economy is associated with the following factors:

- Institutional reforms: Government-issued tax incentives and legal guarantees for attracting investors to FEZs.
- Infrastructure development: Implementation of high-quality infrastructure projects within these zones has attracted both domestic and foreign investors.
- Technological modernization: High levels of automation in production and the integration of innovative processes within FEZs.

The growing industrial output from FEZs and SIZs represents a key step toward building a successful model for industrial development in Uzbekistan. However, to further

unlock their economic potential, the formulation and effective implementation of long-term development strategies are essential.

Classification of Free Economic Zones (FEZs) in the Era of Globalization In the context of globalization, FEZs can be classified based on the following strategic approaches:

- Development of information processing hubs
- Efficient use of resources and implementation of green technologies
- Integration of innovations into the national economy

FEZs take various forms, serving as effective instruments for implementing national economic policy, and can be categorized into the following scientific and practical types:

1. Trade Zones: These zones are vital in developing national and international trade networks. Examples include special trade zones and customs-free zones, which help attract foreign investment and reduce trade barriers. Transit and special external trade zones contribute to the development of logistics and transportation services.

2. Production Zones: These zones are designed for economic diversification and the implementation of innovative technologies. Industrial production zones and export-oriented manufacturing zones promote technological advancement. Small enterprise zones play a crucial role in boosting local economic activity. Agropoles are significant in enhancing agricultural output.

3. Technical Research Zones: Created to accelerate the shift toward an innovation-driven economy and support technological advancement. Technoparks and technopolises conduct scientific research. Scientific and technological zones enable industrial integration of technologies. Scientific-commercial parks link innovation with entrepreneurship.

4. Service-Oriented Zones: These focus on diversifying the economy and introducing new service types. Special banking zones, offshore areas, and tourism zones span different segments of the service sector. Insurance zones contribute to financial stability.

5. Integrated Zones: These combine multiple economic functions and foster diversified development. Free economic zones, regional zones, and international free zones promote economic integration and international cooperation.

The variation among FEZ types demonstrates that they serve different strategic purposes. These zones play an important role in developing local economies, creating jobs, attracting foreign investments, and introducing modern technologies.

Towards investor-centric ecosystems in fez planning the proper selection of fez types and forms, along with the establishment of investor-centric ecosystems, is essential. success also depends on modernizing infrastructure and governance systems in line with contemporary demands.

In the globalization era, FEZ development must align with economic, technological, and environmental standards. Their successful operation depends on scientifically defined classifications and development conditions.

Three Core Directions in FEZ Development

1. Digital Economy. Expansion of IT services and automation of economic processes via smart technologies. Integration of AI, big data, and IoT for managing information resources

2. Sustainable Development. Efficient resource management and reduction of environmental harm. Promotion of renewable energy and recycling technologies

3. Technology Transfer. Introduction and localization of advanced technologies into domestic industries. Enhancing national competitiveness through innovation

Key Factors for FEZ Success

1. Geopolitical Factors. Proximity to international trade corridors and communication hubs. Effective use of geo-economic advantages, such as natural resources and existing infrastructure

2. Legal Conditions. Establishment of adaptive regulatory systems to support FEZ operations. Creation of a business-friendly legal environment for investors

3. Economic Conditions. Stable infrastructure and high investment attractiveness. Implementation of risk-adjusted investment models to reduce investor uncertainty

4. Organizational Conditions. Multi-stakeholder governance model for coordination among all stakeholders. Application of innovative management technologies

FEZs must be classified appropriately and developed according to modern requirements to ensure successful operation. Digitalization, sustainability, and technological integration will play decisive roles in meeting evolving global demands.

Analyzing geopolitical, legal, economic, and organizational factors and tailoring strategies accordingly will support the long-term stability of FEZs. Expanding international cooperation and enhancing innovation infrastructure are key to transforming FEZs into integrated components of the global economy.

CONCLUSION

Based on the results of this research, the following practical recommendations are proposed:

1. Develop a scientific model to evaluate FEZ performance. Use DSGE (Dynamic Stochastic General Equilibrium) and VAR (Vector Autoregression) models to assess FEZs' socio-economic impact. Forecast FEZ contributions to investment volumes, job creation, and export potential

2. Establish FEZs focused on the digital economy. Introduce "smart infrastructure" by utilizing IoT and Big Data technologies. Create digital-specialized FEZs and provide tax incentives for IT companies

3. Implement green economy models within FEZs. Enforce environmental standards for efficient resource use and waste management. Promote renewable energy-based "green FEZs" and introduce international ecological certification systems

4. Enhance FEZ governance systems. Adopt multi-stakeholder governance models involving the public sector, private sector, and civil society. Automate management using AI and Blockchain technologies

5. Deepen industrial specialization. Develop technology-focused industrial clusters within FEZs. Identify strategic industries for each zone and apply cluster-based development models. Strengthen international partnerships and support global integration of FEZs. Ensure FEZ participation in international investment forums and enhance investment ratings. Align legal frameworks with international standards and provide additional guarantees for foreign investors

These scientifically grounded proposals serve as strategic directions for increasing FEZ efficiency and strengthening Uzbekistan's competitiveness in the global market.

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