

# THE ROLE OF SPECIAL ECONOMIC ZONES IN THE ECONOMIC DEVELOPMENT

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## GLOBALIZATION AND BUSINESS LEADERSHIP

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### Summary

#### **Objectives**

The objective of this thesis is to do a research on improvement of the activity of Navoi Free Industrial Economic Zone (FIEZ), which is established in December 2008 on territory of Navoi region of Uzbekistan. The purpose is to find important factors to successfully implement the strategy of further development of Navoi FIEZ, attraction of potential foreign and local business entities to the zone. Through learning the Japanese and Chinese experience on management of Special Economic Zones the study helps to answer the following question: What factors exist across Navoi FIEZ that might increase the economic and industrial potential of the zone and whole Navoi region.

Uzbekistan gained its independence from former Soviet Union in August 1991, and has chosen the way of transition to market economy. Within period of 1996 and 2002 the economy of Uzbekistan reached growth by 4-5% per year and between 2003 and 2007 it raised to 7-8% per year.

To encourage further promotion of foreign investments, create favorable conditions for them and ensure more effective use of the large economic and investment potential of Uzbekistan, in December 2008 Navoi FIEZ has been established.

The objective of this research is to recognize the problem why despite 5 years passed after establishment just a few entrepreneurs are interested in doing business on the territory of Navoi FIEZ. The purpose is to find out solutions on this issue and give recommendations on improvement of the activity of Navoi FIEZ.

## **Background**

Many consider the Island of Delos in the Cyclades as the first approximation of a free zone, in the sense that it provided free-trade-like conditions.

In the period of 12th and 18th centuries trades mostly developed along seaports and land routes. Trading posts usually were built at strategic points of seacoasts and boatable mouths of rivers.

Modern Special Economic Zones with manufacturing operations started to be established from 20th century. The first Export Processing Zone in the world was established in Shannon. But Free Trade Zones of Spain were among the first where allowed to locate manufacturing operations on their territories.

As SEZs were created to support to industrialization of the country by attracting Foreign Direct Investments and technologies in industries complementary to the domestic economy the countries of Middle East, North Africa, Latin America, and China followed the way of developing SEZs. Among them Chinese model was the most successful.

## **Research methodology**

As a research design for this research work it has been chosen to conduct both quantitative and qualitative research. This research is a synthesis of findings from qualitative research through conducting interview with representatives of Special Economic Zones, and quantitative research through collecting and analyzing information about SEZs from different books, magazines, journals, research papers, articles and other internet sources.

## **Findings from the research**

Nowadays there are more than 2350 resident enterprises in Kangqiao Industrial Zone, over 350 foreign enterprises and over 2000 domestic companies; on the whole Okinawa SEZ there are 309 entities, while in Navoi FIEZ there are only 19 factories that started production activity. But it needs to pay attention that Pudong zone established 22 years ago, Okinawa SEZ 15 years ago and Navoi FIEZ only 5 years ago. The share companies with foreign capital in Navoi FIEZ is 90%, Pudong zone – 15%, and Okinawa SEZ – only 1%.

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## CHAPTER 1. INTRODUCTION

*“The proximity of the Navoi Free Industrial Economic Zone (Navoi FIEZ) to the transcontinental intermodal hub at Navoi city airport is FIEZ’s most important success element. Located along the world’s most important crossroads of automobile, railway and aviation routes, the Navoi city airport connects Southeast Asia with Central and East Asia, the Middle East, and the European continent. Regular flights connect Navoi city to Asian and European metropolises such as Bangkok, Frankfurt, Milan, New Delhi and Singapore.*

*Undoubtedly, the union between the Navoi FIEZ and the international logistics center at the airport enables income-generating manufacturing facilities to be established, and ready-made products delivered to world markets through a highly developed combination of aviation, automobile, and railway transportation systems. We look forward to the continued collaboration of the government and the business community in the endeavor, and to the successful operation of the Navoi Free Industrial Economic Zone.”*

*Islam Karimov,  
President of the Republic of Uzbekistan*

### Section 1. OBJECTIVES

The objective of this thesis is to do a research on improvement of the activity of Navoi Free Industrial Economic Zone, which is established in December 2008 on territory of Navoi region of the Republic of Uzbekistan. The purpose is to find important factors to successfully implement the strategy of further development of Navoi FIEZ, attraction of potential foreign and local business entities to the zone. Through learning the Japanese and Chinese experience on management of Special Economic Zones the study helps to answer the following question: What factors exist across Navoi FIEZ that might increase the economic and industrial potential of the zone and whole Navoi region.

The Republic of Uzbekistan gained its independence from former Soviet Union on August 31st, 1991, and has chosen the way of transition to market economy. As other Commonwealth of Independent States economies, Uzbekistan's economy also went down during the first years of transition till 1995 and then it started to increase after policy reforms. Within period of 1996 and 2002 the economy of Uzbekistan reached growth by 4-5% per year and between 2003 and 2007 it raised to 7–8% per year. According to IMF data the GDP of Uzbekistan in 2008 doubled its value in 1995 (in constant prices)<sup>1</sup>.

To encourage further promotion of foreign investments, create favorable conditions for them and ensure more effective use of the large economic and investment potential of Uzbekistan, on

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<sup>1</sup> IMF World Economic Outlook Database

December 2<sup>nd</sup>, 2008 Navoi FIEZ has been established in Navoi region. To create the most favorable conditions for investors, enterprises in Navoi FIEZ are provided with high-level infrastructure. FIEZ enterprises are provided with adequate transport infrastructure, utilities, labor safety systems and comfortable environment for employees.

The objective of this research is to recognize the problem why despite 5 years passed after establishment just a few entrepreneurs are interested in doing business on the territory of Navoi FIEZ. The purpose is to find out solutions on this issue and give recommendations on improvement of the activity of Navoi FIEZ under base of my knowledge obtained during my life, as well as during classes at Waseda Business School and working experiences.

I have chosen Navoi FIEZ as a subject to my thesis because my duty at the Ministry for Foreign Economic Relations, Investments and Trade (MFERIT) of the Republic of Uzbekistan was coordination of activities of Special Economic Zones in Uzbekistan. As I had worked on Navoi FIEZ for 4 years before study at Waseda Business School and others, Special Industrial Zones (SIZ) Angren and Djizak, are still new areas, I think its time to learn problem issues of Navoi FIEZ.

## Section 2. BACKGROUND

When we talk about Special Economic Zones, first of all, into our mind come imagines of areas in which located many industrial estates, populated multinational corporations that are producing goods. The other person would talk about one of the famous in the world conglomerate city Shenzhen, a fishing village above Hong Kong transformed into industrialized cosmopolitan city within 3 decades. A person who is in touch with the situation in South East Asia or Middle East might describe cities as Singapore or Dubai, where ports are used as areas to do wide range of trade and logistics oriented activities.

Claude J Baissac, Secretary General of World Economic Processing Zones Association and Executive Director of Eunomix Consulting Company (South Africa), explains that Special economic zones are not a new invention. For as long as organized societies have engaged in external trade, there has been a need for secured areas at ports or in strategic locations along trade routes where

commodities can be stored or exchanged. These areas became free zones when the commodities circulated free of local prohibitions, taxation, duties, and excises. Many consider the Island of Delos in the Cyclades as the first approximation of a free zone, in the sense that it provided free-trade-like conditions<sup>2</sup>.

In the period of 12<sup>th</sup> and 18<sup>th</sup> centuries trades mostly developed along seaports and land routes. Royal privileges were given to the traders as exemption from taxes and duties and traders played main roles in determining policy of many empires. Trading posts usually were built at strategic points of seacoasts and boatable mouths of rivers. By this way many big cities in the world were created like as Hong Kong, Taipei, Singapore, Liverpool, Dubai and others.

Modern Special Economic Zones with manufacturing operations started to be established from 20<sup>th</sup> century. The first Export Processing Zone in the world was established in Shannon (Republic of Ireland). But Free Trade Zones of Spain were among the first where allowed to locate manufacturing operations on their territories, Ford Motors accommodated its first plant in Europe at the Spanish Port of Cadiz in 1920s when industrial productions were prohibited to accommodate in Free Trade Zones of the United States.

From the early 1970s countries of South, East and South-East Asia in started to pay attention to industrialization through establishing EPZs. In the end of 1960s Taiwan set up its first EPZs as Kaoshiung and Nantse, while India established Kandla EPZ. In 1971 South Korea launched its first Masan zone when Taiwan added Taichung zone, India added Santacruz zone in 1973 and other countries like Thailand, Indonesia, Malaysia, Singapore, Sri Lanka, and the Philippines all developed zones in 1970s.

As SEZs were created to support to industrialization of the country by attracting Foreign Direct Investments and technologies in industries complementary to the domestic economy the countries of Middle East, North Africa, Latin America, and China followed the way of developing SEZs. Among them Chinese model was the most successful.

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<sup>2</sup> Farole, T. 2011. "Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience." World Bank, Washington, DC.



### Section 3. IMPORTANCE OF THE TOPIC

Foreign Investment Advisory Service of World Bank describes that SEZs normally are established with the aim of achieving one or more of the following four policy objectives<sup>3</sup>:

1. To attract foreign direct investment (FDI).
2. To serve as “pressure valves” to alleviate large-scale unemployment.
3. In support of a wider economic reform strategy.
4. As experimental laboratories for the application of new policies and approaches.

With the purpose of achieving these goals governments are trying to provide to enterprises-residents very good conditions and well investment climates on the territory of SEZ as full exemption or reduce of tax and duties, construction of modern infrastructural basis, and providing other kind of benefits to investors. As a result, model of China provided huge attraction of FDI that supported to become the first exporter country in the world.

Zone near Penang Island of Malaysia, which was created virtually from nothing, by 2003 employed nearly a million workers. Electro technical industry of Malaysia now is producing about 10 % of semiconductors of the world. Countries of Latin America like as Honduras, the Dominican Republic and El Salvador could achieve access to the markets of the United States and became from agricultural basis manufacturing into diversified industrial countries.

Many SEZ development programs in the world have been successful in attracting of foreign and local investment, generating exports and creating employment in the short term, but they have failed to remain sustainable when labor costs have risen or when preferential trade access no longer offers a sufficient advantage. In 1986 the International Labour Organization (ILO) reported that 176 zones existed in 47 countries; by 2006, this number rose to 3,500 zones in 130 countries (Boyenge 2007). SEZs now are estimated to account for more than US\$200 billion in global exports and employ directly at least 40 million workers (FIAS 2008). These data show us that not each SEZ

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<sup>3</sup> Farole, T., Akinci G. 2011. “Special Economic Zones: Progress, Emerging Challenges, and Future Directions.” World Bank, Washington, DC.

launched in the world is successful, but most of them are operating unsuccessfully.

Thus, SEZ as one of main factors of the social economic development it continues to be debated among politicians, economists, scholars, scientists, mass media and population, and being one of the key roles in the economic growth of the world.

#### Section 4. RESEARCH QUESTION

As mentioned above, SEZ is one of the mostly discussed topics on mass media and among population in the world. It is almost every day negotiated during state official visits, meetings of government officers, at parliaments, governments, organizations, corporations, business areas, universities, colleges and other populated places.

In the period of integration into global trade and structural transformation, including industrialization and upgrading SEZ is a hot topic in Uzbekistan also. On the basis of discussions among policymakers, politicians, people of parliament the issue of successful experiences on developing SEZs in the world, in 2008 the Government of Uzbekistan came to conclusion to establish SEZs in different parts of the state.

Till today in Uzbekistan 3 SEZs have been launched, they are Navoi Free Industrial Economic Zone (operating since December 2008), Angren Special Industrial Zone (April 2012) and Djizak Special Industrial Zone (March 2013). One of the main purposes of establishing that zones is to experiment the application of new policies and approaches in different small part of the country and also to improve the social-economic situation of areas around these SEZs.

The department, which I have been working for at MFERIT, is responsible for the coordination of the activities of these SEZs. As a job duty our department always confronts question “How to make economic zones successful in attracting firms that create jobs and make them economically sustainable?” So I decided to find out answers to this question through my research study of Japanese and Chinese experiences on development of SEZ and possibility of their implementation in the situation of Uzbekistan.

## Section 5. STRUCTURE OF THE THESIS

Following this Introduction chapter, including objectives and background, importance of the topic and research question, the remainder of the thesis is structured as following:

Chapter 2 provides Literature view about SEZs, as well as review of different definitions of SEZ and its development history in the first section and the second section covers the overview of different types of SEZs, including Free Economic Zones, Free Trade Zones, Industrial Parks, Export Processing Zones and Free Ports.

Chapter 3 is Research Methodology, which covers research design and research object sections. First section defines what type of researches done during the study. This research is a synthesis of findings from qualitative research through conducting interview with representatives of SEZs, and quantitative research through collecting and analyzing information about SEZs from different books, research papers, articles and other internet sources. As a research object Uzbekistan, SEZs in Uzbekistan, as well as Navoi FIEZ are studied.

Chapter 4 looks at findings from interview with head of Directorate of Navoi FIEZ, Okinawa Prefectural Government representatives and Vice president of Shanghai Pudong Kangqiao Industrial Zone. The second section contains comparison and review of interview results.

Finally, Chapter 5 draws the entire research conclusions and provides recommendations for the future development and improvement of the activity of Navoi FIEZ.

## CHAPTER 2. LITERATURE REVIEW

### Section 1. SPECIAL ECONOMIC ZONES

#### 2.1.1. Definitions of Special Economic Zone

The term Special Economic Zone is a frequently used term nowadays that defines an exactly geographic area located within the country but rules for doing business is different from the legislation adopted in the country. With the purpose of increasing of trade volume, attraction of foreign direct investment and technology, providing socio-economic growth and creating new jobs country liberalizes the economic policy within the zone. That liberalization might be in the form of reduction or fully exemption from taxes, duties, tariffs and obligatory payments, simplification of labor, business, VISA and other kind of regulations. By using these privileges and preferences the company in SEZ may benefit to produce and trade goods with competitive price in the global market.

In the publications we can see wide variety of definitions of SEZs, as Free Economic Zones, Free Trade Zones, Export Processing Zones, Free Ports, Industrial parks, Foreign Trade Zones, Free Zones, Economic processing Zones, Free Export Zones, Trade and Economic Cooperation Zones and so on. Many different factors resulted to be created several those kinds of economic zones. For example, the Economic terminology is used differently in various countries, the forms and functions of above mentioned zones are differentiates from each other, terminology was interpreted differently during translating to another languages, and many producers try not to use the same brand for their goods with the products of competitors, so Zone promoters also.

Authors of the book “Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience”<sup>4</sup>, published by World Bank, describe that in terms of meta-denomination, the emerging consensus is that the term special economic zone is both the broadest and the most precise to describe the zones defined here. It is also particularly useful from a

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<sup>4</sup> Farole, T. 2011. “Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience.” World Bank, Washington, DC.

definitional and policy development perspective, as the component terms are themselves both sufficiently broad and precise:

1. *Special* refers to the differential regulatory regime that distinguishes the zone from the prevalent domestic economy.
2. *Economic* refers to the broadest type of activities now allowed in zones, without prejudice regarding their nature and focus.
3. *Zone* refers to the physically or legally bounded “economic space” contained in the domestic territory.

### 2.1.2. History of Special Economic Zones

According to historical records the first SEZ in the form Free Port was created on the Island of Delos. Beginning about 200 BC the Island of Delos was an important religious sanctuary, which attracted many worshippers from around areas. So that economy of the island rose very sharply and it became one the most important trading port of that period. The island’s government spent significant resources expanding the port and later made it a toll-free harbor. The Greek historian Polybius, writing around 150 BC, used the term *free port* to describe Delos (Champion, C.B. 2003; Reger, G. 1994).

Between the 12<sup>th</sup> and 18<sup>th</sup> centuries trades mostly developed along seaports and land routes. Royal privileges were given to the traders as exemption from taxes and duties and traders played main roles in determining policy of many governments. From the mid 1800s European colonial Empires built trading posts mostly at strategic points of seacoasts and boatable mouths of rivers. In that period SEZs were developed in the form Free Trade Zones (FTZ). Many big port cities in the world like as Liverpool, Hong Kong, Taipei, Singapore, Dubai and others were created in this manner.

By 1900s there were 11 FTZs, among those 7 were in Europe and 4 in Asia. Production activity entered into the territory of FTZs only in the 20th century. The first Export Processing Zone in the world was established in Shannon town of Republic of Ireland in 1959. But Free Trade Zones of Spain were among the first where allowed to locate manufacturing operations on their territories,

Ford Motors accommodated its first plant in Europe at the Spanish Port of Cadiz in 1920s when industrial productions were prohibited to accommodate in Free Trade Zones of the United States.

From the early 1970s development of SEZs was highly accelerated in almost each regions of the world, starting from East Asia, South-East Asia, Middle East and North Africa until Latin America, Central America and Caribbean. But there is any other model of SEZ development in the world that was much more successful than the Chinese model.

After the death of Mao Zedong (1893-1976), Chinese Communist revolutionary and the founding father of the People's Republic of China (PRC), the new reformists under the leadership of Deng Xiaoping pushed the government to lead the country towards a market economy. During the 3<sup>rd</sup> Plenary Session of the 11<sup>th</sup> Central Committee of Communist Party of China in 1978 the government of PRC decided to reform the national economy through opening local market to the world. With the initiatives of reformists in the period of 1980s China passed many steps, ranging from the establishment of SEZs and coastal port cities, and launching open inland and coastal economic and technology development zones. Deng Xiaoping described this process as "crossing the river by feeling for stones."

In the beginning of 1980s China launched its first SEZs, Shenzhen, Zhuhai and Shantou economic zones in Guangdong Province and Xiamen economic zone in Fujian Province, as well as the whole province of Hainan also designated as a SEZ. Later in 1984 China opened to the world more 14 cities as Shanghai, Dalian, Fuzhou, Guangzhou, Tianjin, Lianyungang, Nantong, Ningbo, Beihai, Qingdao, Qinhuangdao, Wenzhou, Yantai and Zhanjiang that are all located at coasts of the seas. In June 1990, the PRC government opened the Pudong New Area in Shanghai for overseas investment, and other additional cities along the valley of Yangtze River, with Pudong New Area in Shanghai as its "dragon head."

The strategy proved to be successful. China became the world's largest exporter of manufactures and the leading recipient of FDI among emerging economies (See appendices #1 and #2). SEZs played a key role: Between 1979 and 1995, the country received 40 percent of international FDI to developing countries. Ninety percent went to the coastal areas; 40 percent to

Guangdong Province. The three Guangdong zones absorbed 50 percent of that total. In other words, these three SEZs received a staggering 7.2 percent of the total volume of FDI to emerging markets between 1979 and 1995, and 18 percent of all FDI into China<sup>5</sup>.

At the moment in China there are more than 200 various types, sizes, focuses, and sectorial concentrations of special zones, like commercial zones, industrial zones, technological zones, and so on. China provides a reference for the use of wide-area SEZs as a tool for economic growth, and it is expanding its model globally with investments in “economic cooperation zones” around the world.

## Section 2. TYPES OF SPECIAL ECONOMIC ZONES

As mentioned above there are many types of SEZs in the world. The table 1 in the below gives us brief summary about some existing types of SEZs in the world. It shows that SEZs may

**Table 1. Summary of types of zones**

<i>Type of zone</i>	<i>Development objective</i>	<i>Typical size</i>	<i>Typical location</i>	<i>Activities</i>	<i>Markets</i>	<i>Examples</i>
Free trade zone (commercial-free zone)	Support trade	<50 hectares	Port of entry	Entrepôt and trade-related activity	Domestic, re-export	Colon Free Zone (Panama)
Traditional EPZ	Export manufacturing	<100 hectares	None	Manufacturing or other processing	Mostly export	Bangladesh, <sup>1</sup> Vietnam
Free enterprises (single unit EPZ) <sup>2</sup>	Export manufacturing	No minimum	Countrywide	Manufacturing or other processing	Mostly export	Mauritius, Mexico
Hybrid EPZ	Export manufacturing	<100 hectares; only part of area is EPZ	None	Manufacturing or other processing	Export and domestic	La Krabang, Thailand
Freeport/SEZ	Integrated development	>1,000 hectares <sup>3</sup>	None	Multiuse	Internal, domestic, and export	Aqaba, Shenzhen

**Source:** Derived from FIAS (2008) and Farole (2011).

**Note:** EPZ = export-processing zone; SEZ = special economic zone.

1. Bangladesh passed a new Economic Zones Act in 2010 that will open up the potential of zone activities beyond the traditional EPZs; Vietnam has various forms of economic zones, among which are EPZs.
2. Many EPZ programs offer licenses for both EPZ industrial parks and “single unit” EPZs. Examples include Dominican Republic, Honduras, and Kenya.
3. Some multiuse SEZs, particularly those that do not include a resident population, may be smaller in scale.

<sup>5</sup> Farole, T. 2011. “Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience.” World Bank, Washington, DC.

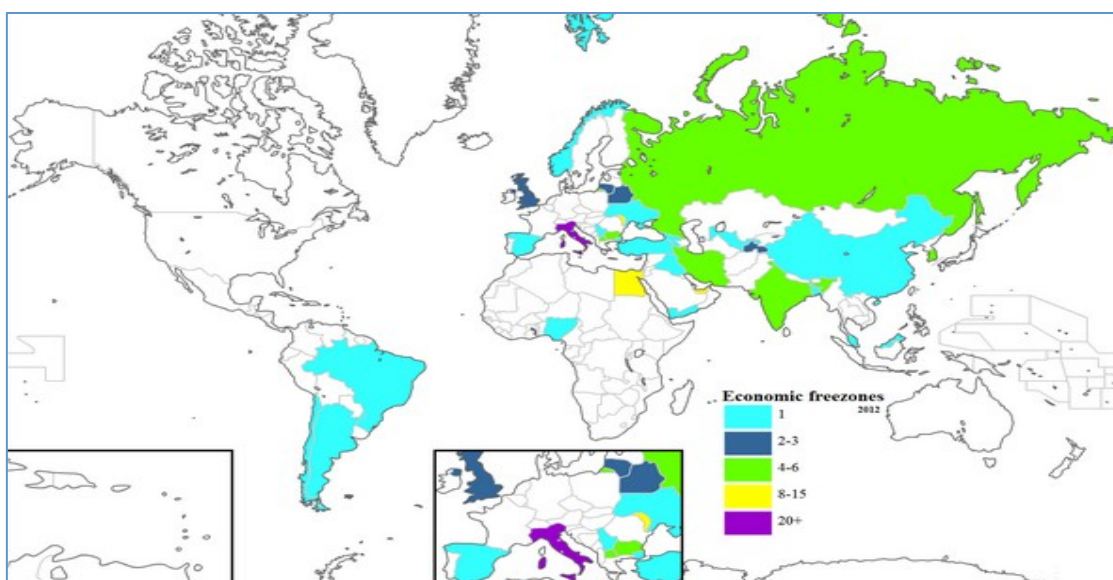
differentiate between each other depending on the goals of development, their sizes, locations, activities, and markets purposed to enter. But even though there are many variations in name and form, all Special Zones are defined as areas located within the country where the rules of doing business are different from the actual legislation in the national territory. These distinctions between them are connected with investment environment, tax regime, global trade and customs, regulatory conditions and others, whereby the conditions on the territory of Special zones are usually more liberal than the country.

This section covers the overview of some types of SEZs in the world.

### 2.2.1. Free Economic Zones

Free Economic Zones (FEZ) or Free Zones (FZ) are one type SEZs that are usually established by administration of different countries with the purpose of trade and commerce development. FEZ is used for the designated areas in which companies, who are dealing with production and trade, are taxed very lightly or not at all. The World Trade Organization Agreement on Subsidies and Countervailing Measures has content on the conditions and benefits of FZs.

**Figure 1. Geographic locations of the Free Economic Zones in the world**



**Source:** [http://en.wikipedia.org/wiki/Free\\_economic\\_zone](http://en.wikipedia.org/wiki/Free_economic_zone)

FEZs are the oldest and the most spread types of SEZs that are located mostly in seaports and some in airports. FEZs are commonly established at or nearby intersection point of international



transport systems. As they are outside of country's custom regime they are usually isolated with walls, fences and gates.

### 2.2.2. Free Trade Zones

Free Trade Zone (FTZ) is also one specific type of SEZ. FTZ is a special geographic area in which goods may be landed, handled, manufactured or reconfigured, or reexported without payment any customs duties or intervention of any customs authorities. If the goods moved into the local market of the FTZ's country, in that case companies need to pay customs duties for the goods. FTZs are launched around main seaports, international airports, and national boundary areas where there are trade preferences and privileges.

In Latin America they FTZs started to be established in the early of the 20<sup>th</sup> century. In 1920s the first Free Trade Regulations of the continent were enacted in Argentina and Uruguay. The FTZs in the United States were authorized in 1934<sup>6</sup>.

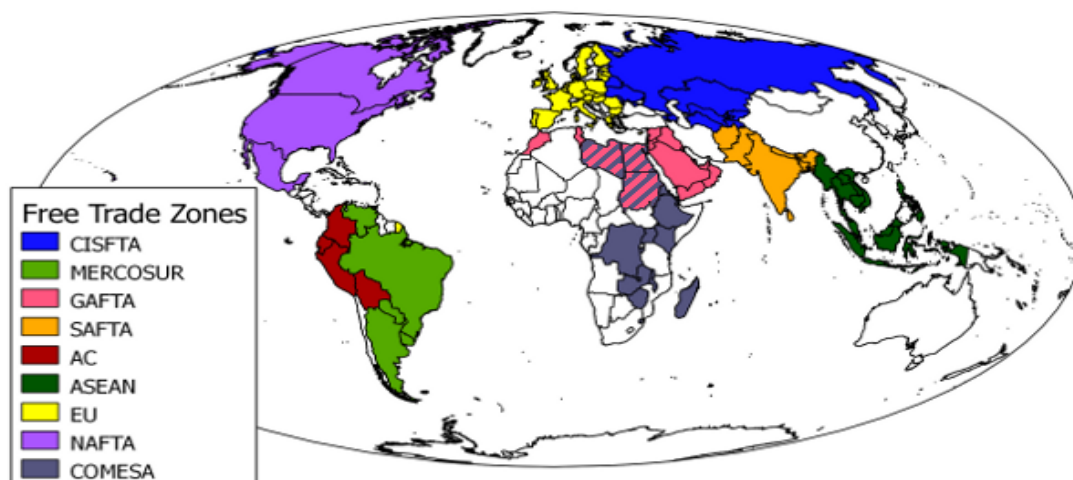
These types of zones are set up mostly in low developed parts of the country to stimulate the economy of region through attraction of multinational corporations to set up new factories and reduce poverty and unemployment.

Nowadays there are another type FTZs in the world that are established under the agreement between countries and international organizations. Those kind FTZs cover much more area and they are regions where a group states has agreed to reduce or eliminate trade barriers. Today there are numerous free trade zones and economic cooperation organizations in the world. This map shows a selection of notable ones, including the Association of South East Asian Nations, the Andean Community, the European Union, Free Trade Agreement of Commonwealth of Independent States, the Common Market for Eastern and Southern Africa, the Greater Arab Free Trade Agreement, the South Asian Free Trade Agreement, the Southern Common Market (MERCOSUR) and the North American Free Trade Agreement (See Figure 2).

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<sup>6</sup> [http://en.wikipedia.org/wiki/Free\\_trade\\_zones](http://en.wikipedia.org/wiki/Free_trade_zones)

**Figure 2. Selected Free Trade Areas in the world**



*Source:* <http://debitage.net/humangeography/economic.html>.

As an example we can see that in 1960 leaders of Argentina, Brazil, Chile, Mexico, Paraguay, Peru and Uruguay decided are agreed to set up The Latin American Free Trade Association (LAFTA) in Montevideo. After 20 years another organization Latin American Integration Association was also established in Montevideo.

In some publications FTZs are also defined as Labor-intensive manufacturing centers that import raw materials and components for further processing and exporting factory goods. At the same time FTZs are also known as Special Economic Zones in some countries.

Most of FTZs are located in the developing countries such as India, Pakistan, China, Malaysia, Indonesia, Bangladesh, the Philippines, Brazil, Colombia, Mexico, El Salvador, Costa Rica, Guatemala, Honduras, Sri Lanka, Kenya, Mauritius and Madagascar and others. According to Wikipedia Internet encyclopedia FTZs in 116 countries employed 43 million people in 2003.

### 2.2.3. Industrial Parks

Industrial park (also known as industrial district, industrial estate) is a type of SEZ that is demarked area with the purpose of industrial development. Industrial parks usually confused with Business parks, therefore it should be paid attention that Industrial parks are heavyweight form of Business parks, they have offices and industries located on them are much more lighter than the

Industrial zones with heavy industries.

Business Park (also known Office parks) is a part of area where many offices located together to do commercial business activities instead of industrial manufacturing or residential businesses. Business parks are popular mostly in suburban areas or highways and main expressways where the opportunity of doing business is cheaper because of low costs labor and land. Offices in business parks are usually built wider and not so high than the urbanized locations.

Industrial parks are also established far from or outside of central urbanized regions the cities where the transportation system as well as highways and railways are provided well. In industrial estates infrastructural communication such as automobile roads, railways, electricity and other utility services are provided with the reason to encourage the industrial growth and minimize environmental impacts. According to the world practice the distance between Industrial parks and residential areas consists of 100 meters for small factories with minimal environmental hazards and at least 1 kilometer for very polluting industries. The infrastructure may cover air pollution and effluent monitoring; solid and toxic waste collection, treatment, and disposal; technical services on pollution prevention; quality management (quality assurance and control); effluent treatment; and other laboratory services.

Industrial parks might be different type depending on particular industries that are needed to be promoted. The promotion should be appropriate and connected with the comparative advantages of the country. Meanwhile, according to their specialized facilities industrial parks might also be airport-based to develop air-based businesses such as export of fresh and processed fruits and vegetables or cut flowers, or even simply financial services zones aiming at promoting off-shore activities.

Nowadays such kind of Industrial parks exist in Canada, the US, UAE, Mexico, the United Kingdom, Pakistan, Honduras, Bangladesh, Russia and India (See appendix # 3, List of Industrial parks by size). Some of Industrial parks include distribution centers, warehouses, ports, airports, food and beverage processors, plastics manufacturers, oil refineries, chemical plants, and steel manufacturers.

#### 2.2.4. Export Processing Zones

An Export Processing Zone (EPZ) is an industrial estate, mostly covers the territory between 10 to 300 hectares, where imported raw materials and components are processed with the purpose of exporting to the world market without paying duties and with a minimum of customs regulations. On the territory of EPZs governments try to provide free trade environments and liberal regulatory conditions to participating companies. The main purpose of creating such kind of zones in the country is to attract foreign direct investments and technologies, traders and consumers who can provide entry into the global market, thus generating employment and foreign exchange.

To accelerate attraction of FDI EPZs are ready to meet the requirements of foreign investors as providing land, factory spaces or sites, infrastructural communications (access to air, sea and automobile transports, and utilities), business services, as well as exemption from taxes and customs duties for imported raw materials, equipment and spare parts. Meanwhile, EPZs try to simplify the customs administration also, mainly checking arriving and departing containers and preventing unauthorized trade between EPZs and the domestic economy.

As EPZ is the oldest type of modern SEZs, 50 years have been passed since the first EPZ was established, today in some countries such as China, India, South Korea, EPZs are no longer a topic of interest because the advent of new type of SEZs has stirred fresh interest among academics and the public.

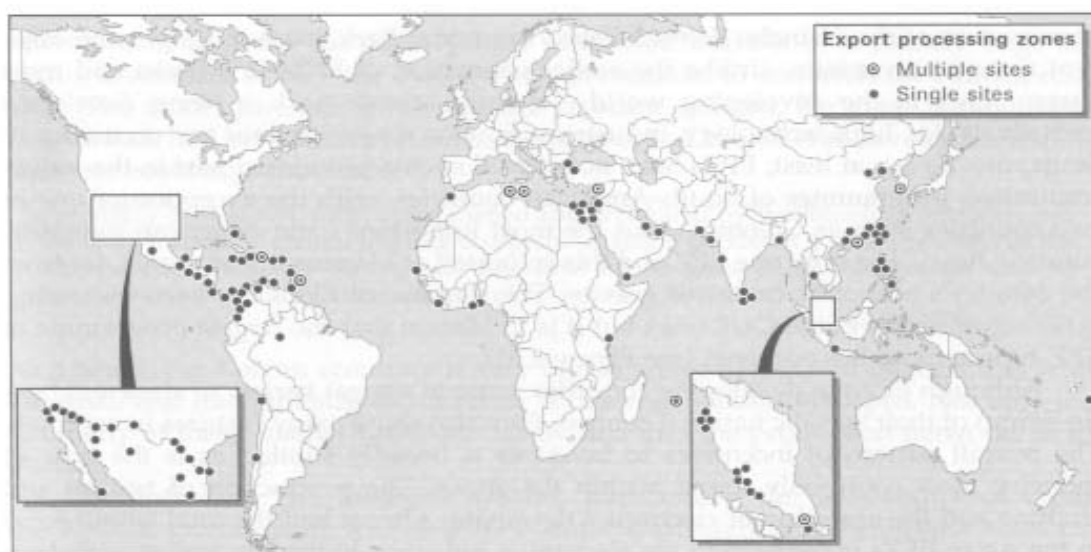
Well-developed trade infrastructure system, including transport systems, communication facilities, warehouses, airports and ports, is an essential and imported issue for companies that are doing business of export activity. Even though the industrial estates or EPZs are developed and managed by public authorities or private enterprises, in developing countries public investments are remaining critical for building the overall trade infrastructure system. That kind of situation is proved even in virtual free ports, where the infrastructure is world-class, as Singapore and Hong Kong.

As practiced EPZs mainly focus on development of their exports and providing employment

in a few labor-intensive industries within two type of manufacturing industries. These are electronics products that are highly developed in Malaysia, Taiwan, South Korea and in some other countries, and garment products that predominate in most of EPZs in countries as the Dominican Republic, Jamaica, Bangladesh, Indonesia, and Sri Lanka. Garments manufacturing accounts for about 10 to 15 percent of employment.

According to the statistics of The World Export Processing Zone Association in 1970 only a handful of countries permitted such zones, but by 1997 there were more than 800 zones in the world, as well as 320 in North America, 225 in Asia, 81 in Europe, 51 in Caribbean, 47 in Africa, each 41 in Central America and South America, 39 in Middle East and 2 in Asia Pacific. In the Figure 3 we can see the geographical locations of some EPZs in the world.

**Figure 3. EPZs of newly exporting countries in the world**



**Source:** <http://guweb2.gonzaga.edu/faculty/brunell/ppasia.html>.

### 2.2.5. Free Ports

A Free port is a port, or section of a port that exempts from various customs regulations. Goods, brought into port, can be landed at a free port for storage and handling, and/or they can even be processed into manufactured products. In the case if the goods are moved from the free port into the adjacent territory the duty will be charged. From the late Middle Ages Free ports started to be established, when the burdensome taxes charged by many petty states threatened the reemerging

maritime commerce.

The term of free port is used confusingly in many publications, because it is used to express the definition of special economic zones. In this regard, the Chinese SEZs and the Aqaba Special Economic Zone might be defined as freeports. Those kinds of freeports are the largest type of all, as they cover large parts of the territory, as well as rural and urban areas, and large transportation facilities such as airports and ports. Freeports can cover entire economic regions, in which the populations live and work, and also can include the economic activities that take place in those regions. At the same time Freeports may have or even overlap political and administrative units.

The high tariffs later levied in the period of mercantilism necessitated additional free ports. In the 19th century the danger of smuggling caused the closing of many free ports. There were free ports in Europe, Copenhagen, Danzig, and Hamburg until 1939; there are still in East Asian port cities as Singapore and Hong Kong.

In the United States, bonded warehouses serve some of the functions of the free port, as permitting goods to be processed or stored in specially licensed warehouses if a bond exceeding the amount of the customs duties is first posted. The Foreign Trade Zones Act authorized the establishment of free ports in the US in 1934, but production was prohibited. The first free port of the US was established in New York City in 1937, and others have since been added later.

Many international airports in the world have free ports, although they try to be called as customs areas, customs zones, or international zones. According to the website of World Port Source nowadays there are several thousands of ports in operation in the world the most which are located in Australia (106), Canada (239), China (172), Denmark (159), France (159), Indonesia (154), Japan (292), Russia (105), Spain (105), and the US (532). But not all of them are Free ports.

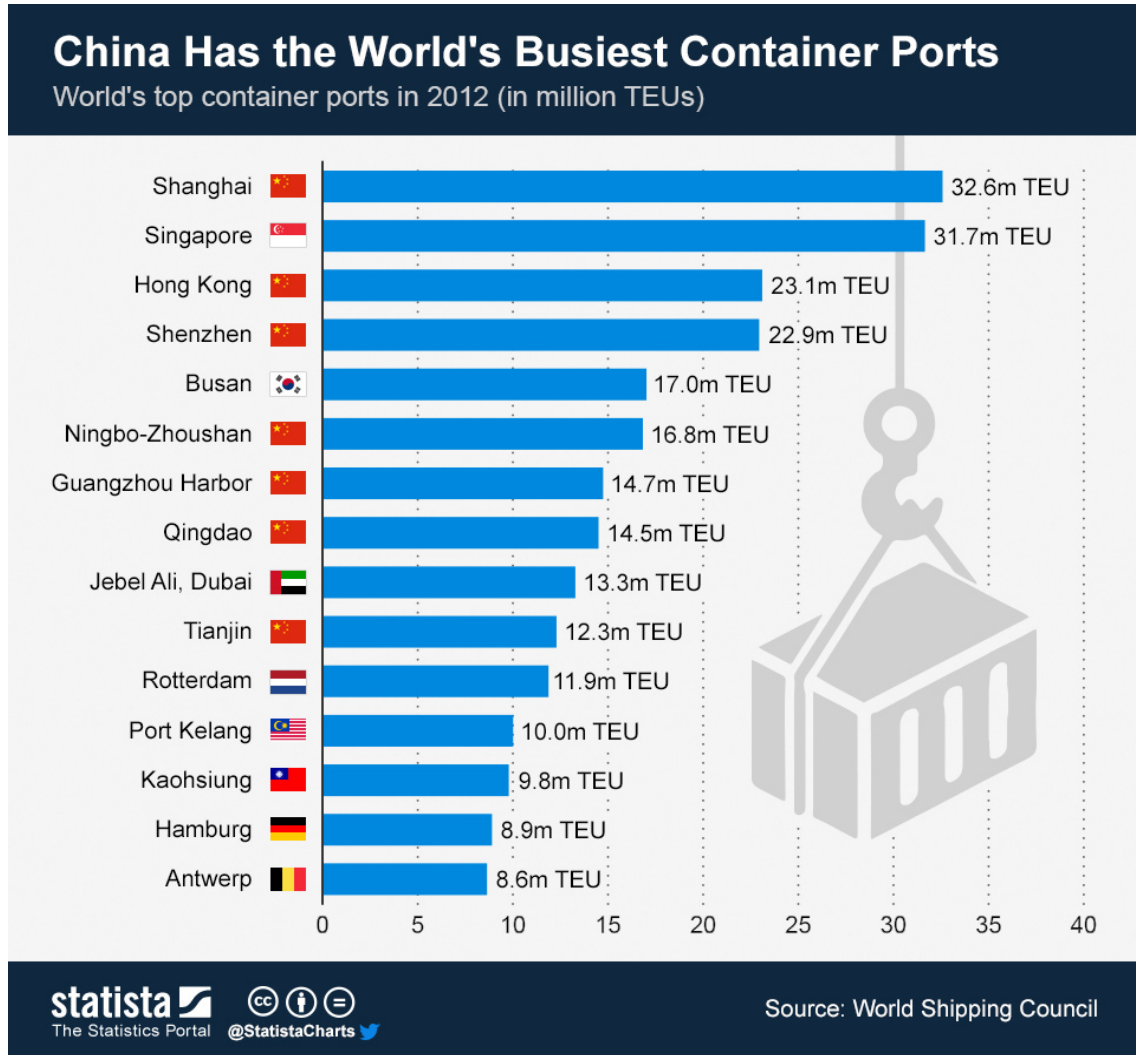
On march 15<sup>th</sup> 2014 noncommercial website “Prafulla.net” published an article about the busiest ports of the world. According to that article<sup>7</sup> Shanghai overtook Singapore in container traffic in 2010 to become the busiest port in the world. The rapid growth and emergence of the port in Shanghai underscores China’s sustained economic development over the past decade (Figure 4).

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<sup>7</sup> <http://prafulla.net/interesting-contents/wonder-world/china-worlds-busiest-container-ports-infographic-chart/>

After handling in 2011 31.74 million twenty-foot equivalent units (TEUs) of container traffic, in 2012 it increased to 32.6 million. The port city Singapore that is located at the southern part of the Malacca Strait, as a second in 2012 handled 31.7 million TEUs of container traffic.

**Figure 4. The busiest ports of the world**



Hong Kong rounds off the top three busiest container ports in the world – in 2012, the city’s port oversaw 23.1 million TEUs of container volume. In fact, as the busiest ports of the world can now be found in China – in addition to Shanghai and Hong Kong, Shenzhen, Ningbo-Zhoushan, Guangzhou, Qingdao and Tianjin all make an appearance in the top 10.

The first European port, Rotterdam, comes eleventh on the list with 11.9 million TEUs of container traffic while the United States is completely absent from the top 15. Los Angeles comes sixteenth after handling 8.07 million TEU’s of containers in 2012.

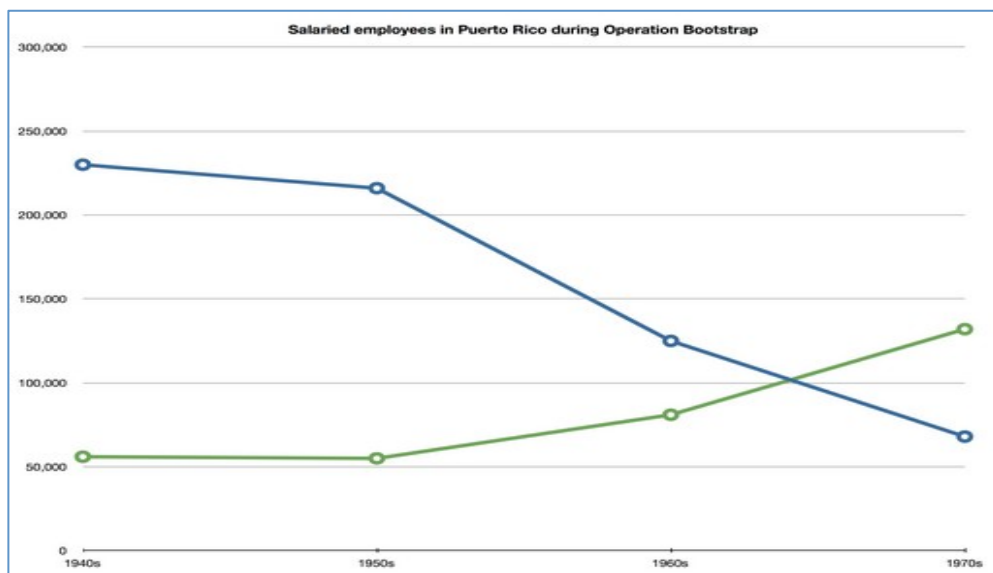
### Section 3. SPECIAL ECONOMIC ZONES IN THE WORLD

The section provides the overview of various Special Economic Zones in the world.

**Puerto Rico.** The 1948 Operation Bootstrap Program initiated by the US in Puerto Rico was result to acceleration of SEZs development in the island. The main purpose of the program was to set up manufacturing industries through attraction of the US's companies and further export manufactured goods into the US market. This export-oriented strategy was planning to create new jobs for the nation and move the economy of Puerto Rico from monocultural sugarcane plantation system into industrial based economy. The program was planning to be implemented through three primary components:

- Incentives on tax exemptions; the island was totally free zone for American companies;
- Investment promotion in the US, investing US\$10 million a year;
- Financing the construction of industrial buildings by Industrial Development Company for further providing to investors for rent.

**Figure 5. Salaried employees in Puerto Rico during the 1948 Operation Bootstrap**



**Source:** [http://en.wikipedia.org/wiki/Operation\\_Bootstrap](http://en.wikipedia.org/wiki/Operation_Bootstrap).

As a result, Puerto Rico's economy shifted labor from agriculture to manufacturing and tourism. The manufacturing sector has shifted from the original labor-intensive industries, such as the manufacturing of food, tobacco, leather, and apparel products, to more capital-intensive



industries, such as pharmaceuticals, chemicals, machinery, and electronics<sup>8</sup>. The chart above is demonstrating how the economy of Puerto Rico shifted from agriculture to manufacturing by showing how the salaried employees during Operation Bootstrap significantly increased manufacturing jobs (green line) while decreasing agricultural jobs (blue line).

***Shannon Free Zone, Ireland.*** As mentioned above, Shannon FZ was the first SEZ in the world, which was established in 1959. The Shannon approach was original because it combined the attributes of the free trade zone with those of the industrial park into a single, integrated investment, industry, and trade development instrument. To achieve the goal to attract a large number multinational corporations Shannon Development, an Irish government agency, provided special tax incentives for staff and profit in the territory Shannon Free Zone.

Today, the Shannon Free Zone is Ireland's biggest multispectral business park and has Ireland's largest cluster of FDI investment nearby Dublin city. There are more than 100 manufacturing and international service enterprises employing more than 6,500 people. In fact, Shannon Free Zone covers 600 acres of land and buildings with the size of 4 million sq. ft. adjacent to Shannon International Airport less than 3 hours from most major European capitals.

The companies who have been operations in the territory of Shannon FZ are Lufthansa Technik, Schwarz Pharma, Avocent, GE Capital, Precision Castparts Corp., Zimmer, Genworth, Ingersoll Rand, Intel, John Crane, Transaero, Mentor Graphics, Illinois Tool Works, RSA Security, Molex, DeBeers Industrial Diamonds, Kraus & Naimer, and Ohshima.

***Maquiladoras in Mexico.*** Following other countries Mexico also chose its *maquiladora* program as a regional development strategy. The termination of the U.S. Bracero Program in 1964 resulted high rate unemployment, as high as 50 percent, in Mexico. To compensate shortage of employment opportunities in the main border cities of Mexico government adopted the Maquiladoras Program.

A maquiladora is a manufacturing operation in Free Trade Zones of Mexico that entities import raw materials, equipment and spare parts on a duty free and tariff free for further assembly,

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<sup>8</sup> "Bootstrapping". NiN. Retrieved 2010-07-15.

processing, or manufacturing goods and then export them, in some cases back to the raw materials' country of origin. As a result of Maquiladoras Program, nowadays 1.3 million Mexicans are employed in more than 3000 maquiladoras.

The new program made abundant and cheap labor available to the US companies. But for this, Mexican side required specific legislation to allow and encourage the US conglomerates to invest and operate along the border of Mexico. In the beginning, the *maquiladora program* had a limited effect on unemployment, more than 200 plants employed only 30,000 workers. After passing a series of legislative acts by the Mexican government in the early 1970s the number of plants grew to 455 in 1974 and employment to 76,000. Now, these figures have multiplied more than tenfold.

The North American Free Trade Agreement (NAFTA) signed in the end of 1993 favorably impacted the growth of maquila plants. During the five years before sign of NAFTA, employment of the maquila had increased at the rate of 47% that rose to 86% in the next five years. The number of maquila factories grew approximately from 2700 to 3700 in 2001. In the 1970s, the location of most maquiladoras was around the border Mexico and the US.

***Colon Free Zone, Panama.*** The Colon Free Zone covers an area of 450 hectares on the Atlantic side of the Panama Canal. It was established in 1948 to capitalize on canal traffic and the trade opportunities at the nexus of North, Central, and South America and the Caribbean, linking the eastern and western seaboard of the US.

Location is one of the main keys to the enormous success of the Colon Free Zone, making it an ideal hub in this age of globalization of the world's economy. The Colon Free Zone is the main commercial distribution center for the western hemisphere<sup>9</sup>. Nearly all world routes pass the Colon Free Zone located as it is at the Atlantic gateway to the Panama Canal with access to both the Atlantic and the Pacific.

The zone offers a liberal trading environment, allowing activities as logistics and trade, both retail and wholesale. In the beginning it was focusing on trade with South America, but then the greater regional integration and economic liberalization in South America has turned Colon into a

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<sup>9</sup> <http://colonfreezone.com/about-the-cfz/>, accessed in June 2014.

prominent regional multimodal logistics platform (maritime, rail, air, and road) and trade center. Freight moves by air, land, rail and sea. Each year, more than 12,900 cargo vessels cross the Canal under the flags of more than 100 countries. The Panama Canal has the largest merchant fleet of the world, at which over 8,000 ships are registered. Most of ships stop for cargo and shipment of their goods from chandlers that are operating on the territory of Colon Free Zone.

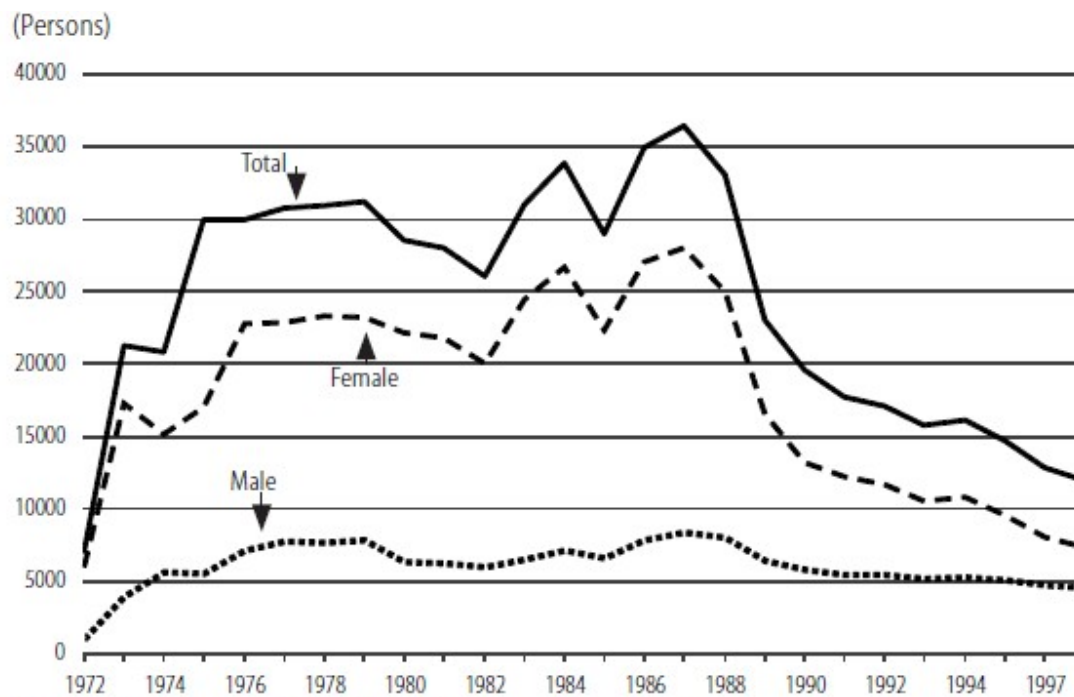
International Banking Center of Panama with more than 90 banks from around the world that have deposits in the amount of 33 billion USD is a great advantage for the Colon Free Zone. The zone is visited every year by more than 250,000 buyers, business people and tourists, hosts 2,500 enterprises, employs more than 28,000 persons, and imports and exports over \$US16 billion of commodities annually.

***Masan Free Zone of the Republic of Korea.*** Established in 1970, the Masan Free Zone later became one of the prototypical Export Processing Zone. In the beginning, it was called as Free Export Zone of Masan that was primarily focused on attraction of FDI in production of export goods. The purpose of creating Masan FEZ was to support the development of manufacturing factories that improved the situation of Korean economy but did not compete with them. After the establishment of EPZs in Masan in 1970 and in Iri in 1973 with a focus on labor-intensive industries the export dependency of the economy increased from 15.6% during the 1970s to 40.1% in 1987.

Thus, investment was constrained by the qualification criteria, and the zone was expanded to 90 hectares from the relatively smaller 10 hectares. It provided a prime investment and operational environment for qualifying enterprises, as well as excellent external infrastructure (port, airport, roads) and a high-quality industrial park. It attracted prime foreign enterprises in the electronics industry.

In 1971, the companies of Masan imported only 3% of their production components from Korea, by 1986, 45% of these components were sourced from Korea. The Masan FEZ could achieve its objectives, like serving as a catalyst for economic diversification by establishment of national competitive clusters that were specialized in high-value manufacturing. It was restructured in 2000 in order to create the liberalized domestic and global economic environment.

**Figure 6. Employment changes in Masan Export Processing Zone**



Source: Administration Office, Masan Free Export Zone (2002).

Figure in the above shows the trend of employment by gender in Masan EPZ. Along with the expansion of bonded processing and exports, employment increased rapidly, reaching a peak of 36,411 workers in 1987. Throughout the 1970s and 1980s, female workers constituted more than 75% of total employment and that about 90% of them were unmarried young workers under the age of 20 (Kang 1986: 36; Kang 1996a: 73). During the period, the wage levels of female workers were between 41% and 46% those of male workers (Korea Institute for Industrial Economics and Trade 1990: 121) and did not cover minimum living expenses<sup>10</sup>.

**Mauritius Export Processing Zone.** The Mauritius Export Processing Zone (MEPZ) is one of Africa's most famous and successful examples of the SEZ, in which companies are granted status on an individual basis and are free to locate anywhere on the island of Mauritius, including in the industrialized parks which are not restricted for MEPZ enterprises. Enterprises of Mauritius EPZ of the dot the national territory and from the early history they have located close to labor force pools.

10 Murayama, M., Yokota, N. "Revisiting Labour and Gender Issues in Export Processing Zones: Cases of South Korea, Bangladesh and India", *Economic & Political Weekly*, Washington, May 30, 2009, Vol. XLIV No22.

The Republic of Mauritius is an island country with the territory only 2,040 km<sup>2</sup>. The small size greatly simplifies access to main infrastructure, as no enterprise is over 60 km from the port and the international airport. This Export Processing Zone Strategy provided the country to avoid having to set up industrial parks to host MEPZs. Mauritius also operates the Mauritius Freeport that is a small commercial free zone, located in the island's commercial port of Port Louis the capital city of the republic. Companies must operate within the designated perimeter.

In the 1970s government decided to adopt an export-led growth to solve the problems as unemployment with high rates, foreign exchange reserves with low levels and high dependency on a mono-crop economy. At those times the strategy of EPZs development was introduced to stimulate FDI and the transfer of know-how and technology into the country.

This initiative was proved as a successful decision. As a result, nowadays around 600 companies are operating in the EPZs and employ over 90,000 workers, representing about 30% of the country's total workforce. These employees are involved in different sectors in EPZs as diverse as IT, printing and publishing, electronics, jewelry, precision engineering and plastics, textile and clothing, and agro-industry.

According to the reports of Mauritius government in 2000, the manufacturing sector's contribution to GDP was 25% that the share of EPZs was 49 %. In terms of gross earnings, 82% of total country's export amount was the share of operating units in the EPZs, thus remaining by far the largest foreign exchange earner of the island. In fact, the EPZ sector registered an average growth rate of 6.4% over the last 5 years, benefiting from the business-friendly environment created by Government as well as from the support of various organizations.

## **CHAPTER 3. RESEARCH METHODOLOGY**

This chapter covers the method of research used during the preparation of this thesis work. To make it much more clearer two types of research, quantitative and qualitative research methods have been conducted during this thesis work. As a research objects the chapter will provide an overview about the whole country Uzbekistan, existing Special Economic Zones in the country, as well as Navoi Free Industrial Economic Zone.

### **Section 1. RESEARCH DESIGN**

As a research design for this research work it has been chosen to conduct both quantitative and qualitative research. This research is a synthesis of findings from qualitative research through conducting interview with representatives of Special Economic Zones, and quantitative research through collecting and analyzing information about SEZs from different books, magazines, journals, research papers, articles and other internet sources.

In the beginning of this research, I had a quick look at Internet resources to formulate draft plan to my further study. After consulting with supervisor Prof. Ohtaki I have chosen to conduct two method of research, quantitative and qualitative approaches of study.

We know that quantitative research is a predetermined study and a large number of respondents should involved to conduct that kind of analysis. Quantitative analysis is done through using formulas, numbers, and objective hard data, as well as by conducting surveys among concrete number of population. To come into conclusion it should be found the result of survey or study. Conversely, qualitative research is a type of study that researcher would collect, analyze and interpret the data by observing or having an interview.

The qualitative analysis refers to the definitions, concepts, symbols, characteristics and descriptions of things when the quantitative analysis focuses on measures and calculations of the things. Many scientists mention that qualitative analysis is much more subjective than quantitative analysis, and vice versa, quantitative research is much more objective than the qualitative research.

### 3.1.1. Primary research - Qualitative research

As a qualitative research an interview was done with representatives of Special Economic Zones of Uzbekistan, Japan and China. The goal of conducting an interview is to get answers to questions, compare with each other, analyze and come to the conclusion, and by this way to find answers of some hypotheses. With that purpose an interview was done with Mr. Ismoil Ermatov – Head of Directorate of Navoi FIEZ, and Mr. HaoQiang DENG – Vice president of Shanghai Pudong Kangqiao Industrial Zone, through telephone conversation and correspondence by e-mail, and with Mr. Tsutomu Hiyane and Mr. Katsuya Shirai – Section Manager and Assistant Manager in Department for General Affairs of Okinawa Prefectural Government, through face to face conversation.

By the way, once more I would like to extend my appreciation to my supervisor, Prof. Ohtaki, Reiji, HaiYong Jin and Kenji Watanabe who are students of Waseda Business School for their support in organization and conducting interview with representatives of Shanghai Pudong Kangqiao Industrial Zone and Okinawa Special Economic Zone.

This interview was the first job in my life and it gave me a great experience on how to conduct an interview and opportunities to learn much more deeper the activity of Navoi FIEZ, Shanghai Pudong Kangqiao Industrial Zone and Okinawa SEZ.

To do qualitative research firstly the list of questions was formulated, which consisted of 30 questions (see appendix #4). Then, during the interviews answers for 30 questions were collected from the interviewees. The interview with Mr. Ismoil Ermatov was held through telephone in Uzbek language, with Mr. HaoQiang DENG by telephone conversation and correspondence in English with interpretation into Chinese language, and face to face with Mr. Tsutomu Hiyane and Mr. Katsuya Shirai in English with interpretation into Japanese. Finally, it was created a comparison table of answers of interviews (see appendix #5) and by this way the qualitative research was done.

### 3.1.2. Secondary research - Quantitative research

After a wide range of literature reviews more precise goals and more focused objectives were formulated to do this research. Many research works clarify that there are two ways of gathering and

using information, primary and secondary data collection. Primary data collection is very important when the researcher cannot find enough information from the secondary resources and it results that the researcher needs to gather information by himself or herself. If the information is collected by researcher himself or herself that is called a primary data collection. Meanwhile, the secondary data is an information that has already been gathered or written by somebody else with different purposes and this data might be reused by another researcher also.

In the process of writing this thesis many secondary resources have been used, as well as books, journals, magazines, research works, articles, brochures and websites of SEZs, Internet publications and other sources. As a mainly used sources the followings can be mentioned:

I. Books published by the World Bank Group:

1. “Special Economic Zones: Progress, Emerging Challenges, and Future Directions” by Thomas Farole and Gokhan Akinci;
2. “Special Economic Zones in Africa: Comparing Performance and Learning from Global Experience” by Thomas Farole;
3. “Building Engines for Growth and Competitiveness in China: Experience with Special Economic Zones and Industrial Clusters” by Douglas Zhihua Zeng.

II. Research working papers:

1. “Implications of WTO Disciplines for Special Economic Zones in Developing Countries” by Stephen Creskoff and Peter Walkenhorst;
2. “Cluster-Based Industrial Parks: A Practical Framework for Action” by Célestin Monga;
3. “How Do Special Economic Zones and Industrial Clusters Drive China’s Rapid Development?” by Douglas Zhihua Zeng.

III. Brochures of SEZs:

1. “Okinawa Special Economic Zone: Okinawa Prefecture Industrial Site Promotion Guide”;
2. “Shanghai Pudong Kangqiao Industrial Zone – 2012 Year book”;
3. “Navoi Free Industrial Economic Zone: Regulatory and Legal Documents”.



## Section 2. RESEARCH OBJECT

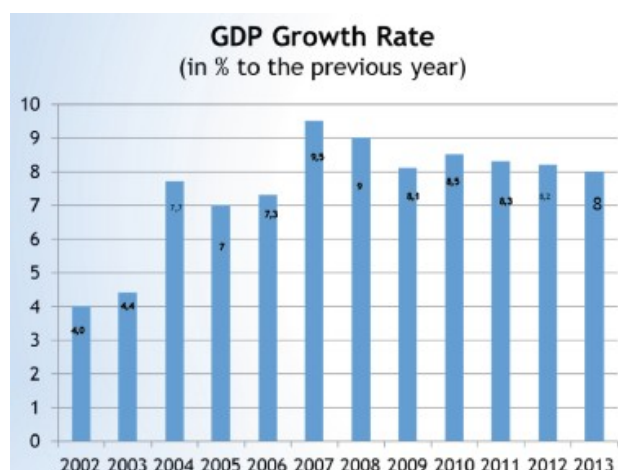
As the main purpose of this research is to study foreign success experiences on establishment, development and improvement of SEZs activity and the possibility of their implementation in the situation of Uzbekistan, naturally the object of this research would be Special Zones of Uzbekistan. Therefore, this section reviews in a brief the social-economic situation of the Republic of Uzbekistan, existing Special Economic Zones in the country, as well as Navoi Free Industrial Economic Zone.

### 3.2.1. Uzbekistan in brief

The Republic of Uzbekistan as a young country gained its Independence on August 31st, 1991. Since independence, Uzbekistan has started a gradual transition to a market-based economy. The process of economic reforms was based on a gradual approach, in order to ensure social stability alongside with substantial economic growth. This approach resulted in considerable achievements, recognized by all major international financial institutions.

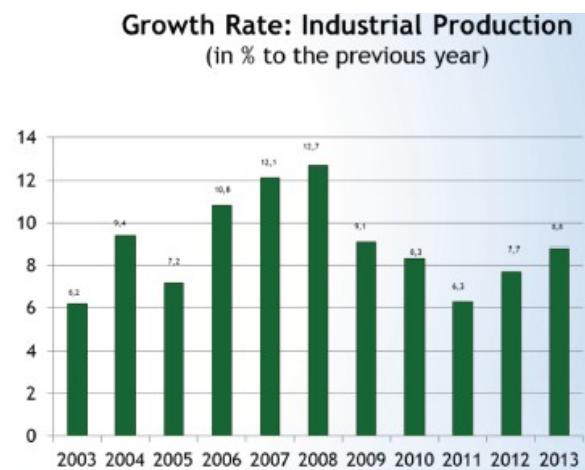
Uzbekistan is a leading industrial country in Central Asia. It possesses a highly developed automobile, airplane and machine building, textiles, food processing, metallurgy, natural gas and oil processing, chemical and other industries.

**Figure 7. Growth rate of Uzbekistan GDP in 2002-2013**



Source: <http://stat.uz>.

**Figure 8. Rate of Industrial production of Uzbekistan GDP in 2002-2013**



Source: <http://stat.uz>.

For the period of independence, the growth rate of Uzbekistan's GDP based on purchase power parity (PPP) has increased 3.5 times (see Figure 7). During the last decade sustained high

rates of economic growth of the country remains between 7 to 9% annually. At the same time, in that period the amount of industrial production has risen more than 3 times (see Figure 8). If we see the economic development in comparison with other states of Collaboration of Independent States (CIS) in the beginning of 2000s the GDP growth rate of Uzbekistan was the lowest among other CIS countries - 4.2%. After taking measurements on economic reforms this indicator increased to 8.3% in 2011 that was the highest among other CIS countries (Table 2).

**Table 2. Comparison of GDP growth of CIS countries in 2001-2012**

Countries	Azerbaijan	Belarus	Kazakhstan	Kyrgyzstan	Russia	Tajikistan	Uzbekistan	Ukraine
2001	9,90%	4,70%	13,50%	5,30%	5,10%	9,60%	4,20%	9,20%
2010	5,00%	7,70%	7,30%	-0,50%	4,50%	6,50%	8,50%	4,10%
2011	0,10%	7,70%	7,50%	6,00%	4,30%	7,40%	8,30%	5,20%
2012	2,20%	1,50%	5,00%	-0,90%	3,40%	7,50%	8,20%	0,20%

*Source:* [https://www.cia.gov/library/publications/the-world-factbook/wfbExt/region\\_cas.html](https://www.cia.gov/library/publications/the-world-factbook/wfbExt/region_cas.html).

The economy has increased by 45%, as well as agricultural production – 1.5 times, industrial production – 1.6 times, the foreign trade turnover – 1.7 times, gold and currency reserves – 3.7 times, and inflation rate in this period has reduced from 21.6% to 7.0%, and the balanced budget of the state has been executed with a surplus since 2005 (Appendices \_\_ and \_\_).

As one the leading industrial country of Central Asia Uzbekistan has already developed highly its diversified industries as airplane and machine building, automobile, natural gas and oil processing, chemical, metallurgy, textiles, food processing, and other industries.

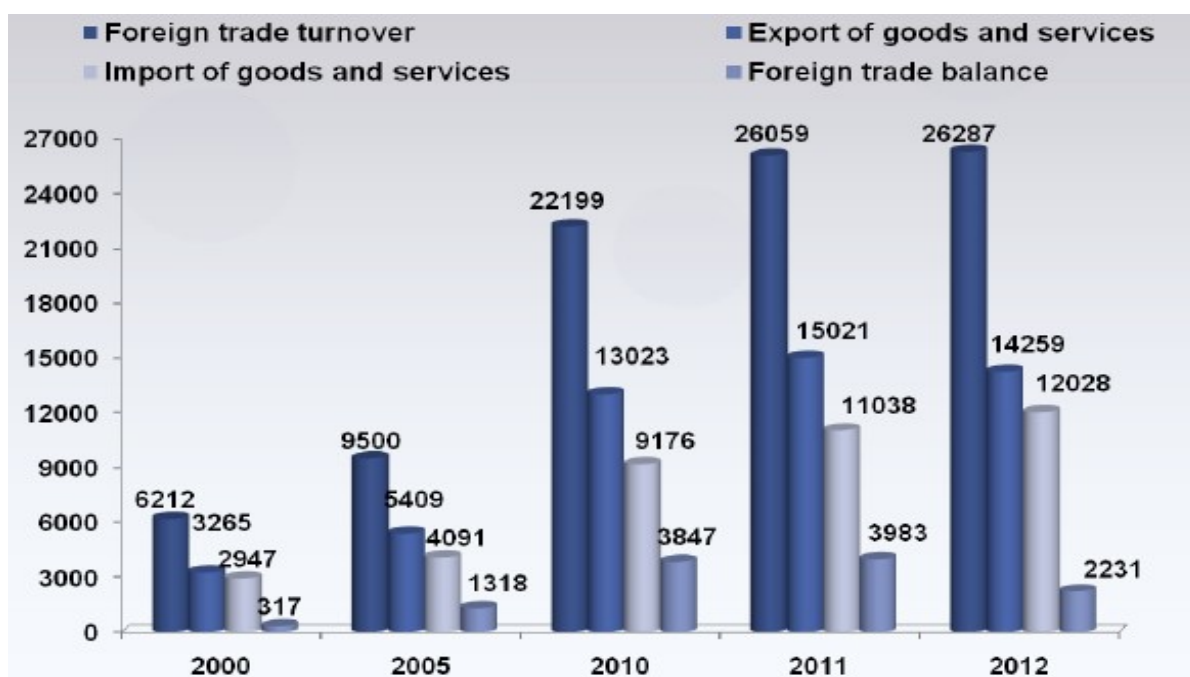
It is the largest agricultural producer of the Central Asia region and leading producer and exporter of raw cotton, and, more recently, of cotton yarn and textiles. The country also produces and exports significant quantities of silk, fruits and vegetables. As Uzbekistan is rich for natural resources the mining and minerals is also taking good position the national economy. It is one of the major producers of gold with the largest open-pit gold mine in the world and has substantial deposits of such strategic minerals as copper, lead, zinc, tungsten, and uranium, as well as natural gas and oil.

Foreign trade policy of the country is based on import substitution. Traditional trade partners of Uzbekistan are mostly the countries of CIS, notably Russia, Ukraine and Kazakhstan, the share

which accounts for over 40% of the total export and import operations of the State. Balanced foreign trade – sustainable surplus and over 6-times growth of the official reserves in the past 5 years (Figure 9).

Main export partners in 2012 were China 21.2%, Kazakhstan 15.9%, Turkey 15.8%, Russia 14.7%, Bangladesh 9.5%, Kyrgyzstan 4%, while import partners were Russia 20.7%, China 16.6%, South Korea 16.4%, Kazakhstan 12.5%, Germany 4.6%, Turkey 4.2%, Ukraine 4%. The Non-CIS partners of Uzbekistan have been increasing in importance in recent years, with Turkey, China, Iran, South Korea, and the EU being the most active.

**Figure 9. Dynamics and volume of Uzbekistan Foreign Trade in 2000-2012, in mln. US\$.**



*Source:* <https://www.stat.uz>.

The success of stabilization and currency liberalization in 2003 has led to significant increases in exports and imports in recent years, although imports have increased much less rapidly: while exports had more than doubled to US\$15.0 by 2011, imports had risen to US\$11.0 billion. Main export commodities of the state are energy products, cotton, gold, mineral fertilizers, ferrous and nonferrous metals, textiles, food products, machinery, automobiles, when import commodities are machinery and equipment, foodstuffs, chemicals, ferrous and nonferrous metals.

The Aggregate tax burden of Uzbekistan decreased by almost 3 times during the

Independence period. With the purpose increasing of export amount and improvement of Small business and Entrepreneurship in the country the Government provided additional tax incentives by for exporters, small business enterprises and companies engaged in new investments and starting production of new goods and products (Appendices #6 and #7).

The transport infrastructure of the country is developed well enough which includes over 43.5 thousands km of automobile highways, 6.5 thousands km of railways, and highly developed air communication network system that connects the most far away places and areas with no people living there of the country to major centers, providing access to international transport systems and basic natural mineral and raw material resources in the country. Unfortunately, as Uzbekistan is one of two doubly landlocked countries in the world (the other being Liechtenstein), it usually confronts with the problematic issues of sea transport system.

The British well-known risk and strategic consulting company “Maplecroft” ranked Uzbekistan on 20th position in the list of “Fast Growing Countries of the world”. In the meantime, another British banking and financial services corporation HSBC in its report “Global Research: the World in 2050” mentioned that Uzbekistan would take 10<sup>th</sup> position among 20 fast growing countries by 2050 (Appendices #8 and #9).

### 3.2.2. Overview of Special Economic Zones in Uzbekistan

The first SEZ in Uzbekistan Navoi Free Industrial Economic Zone was established on December 2<sup>nd</sup>, 2008. Next chapter reviews Navoi FIEZ in detail. There are more 2 Special Economic Zones in Uzbekistan: Angren Special Industrial Zone and Djizak Special Industrial Zone (See Figure 10).

Angren SIZ was established on April 13, 2012 according to the Presidential Decree of the Republic of Uzbekistan #4436. The total area of Angren SIZ is 14,5 thousand hectares, including the territories of Angren and Ahangaran cities of Tashkent region, and part of territory that is located between those two cities.

**Figure 10. Geographical locations of SEZs in Uzbekistan.**



**Source:** <https://www.investuzbekistan.uz>.

Main goal of the establishment of Angren SIZ is to create favorable conditions for the attraction of foreign and local investments further to set up up-to-date high-tech industrial productions, which promote manufacture of high value-added competitive products, complex and efficient use of productive and resource capacity of Tashkent region, and of course to create on this basis new jobs and improve of social-economic situation of the region.

The special tax treatment and customs benefits are provided for business entities in the territory of Angren SIZ during its operation period (30 years with possibility of further extension). As well as, residents of Angren SIZ are exempted from:

- Income tax, property tax for legal entities, social infrastructure development tax, unified tax for small businesses, as well as compulsory contributions to the Republican road Fund;
- Customs payments (except customs clearance duties) for the equipment, components and materials that are used in manufacturing process which are not produced in the country (in accordance with the list approved by the Cabinet of Ministers).

Abovementioned preferences are provided certain term depending on the amount of contributed investments as follows:

- from 300 thousand to 3 million US dollars – for 3 years;
- from 3 to 10 million US dollars – for 5 years;
- more than 10 million US dollars – for 7 years.

At the same time, the residents of Angren SIZ are provided guaranteed connection to utilities with supplying to the production site. The status of the residents of Angren SIZ is granted by Administrative Council of Angren SIZ. Administrative Council is a collegial body, which consists of representatives of state authorities carrying out interaction of government bodies to ensure the effective operation of Angren SIZ.

Another SEZ in Uzbekistan Djizak Special Industrial Zone with total territory of 524 hectares was set up in Djizak city (416 hectares) along with the branch in Syrdarya district (208 hectares) of Syrdarya region on March 18, 2013 according to the Presidential Decree of the Republic of Uzbekistan #4516.

The main goals of creating Djizak SIZ are to:

- create an enabling environment to attract foreign and local investments, especially direct, for establishment and effective operation of modern high-tech productions for competitive on the domestic and global markets products with high added value;
- provide effective use of production and resource potential of the area, the creation of new enterprises to more advanced processing of mineral resources;
- deepen the processes of localization of production of high-tech products based on local raw materials and on the basis of establishing close cooperative ties and development of industrial cooperation between enterprises of the zone and the whole country;
- provide advanced development and efficient use of the transport, engineering, communications and social infrastructure for further development and widespread use of the potential of the logistics center "Angren" created a system of roads and container cargo.

Tax regime and customs regime of Djizak SIZ are the same with the tax regime and customs regime of Angren SIZ.

### 3.2.3. Navoi Free Industrial Economic Zone

Navoi FIEZ was established in late 2008 in Karmana district of Navoi region, nearby the international Navoi Airport, according to the Presidential Decree of the Republic of Uzbekistan #4059. At that time many mass media sources mentioned that this was one of the anti-crisis policies of Government of the Republic of Uzbekistan.

During operation period of 30 years with the possibility of further extension Navoi FIEZ offers foreign investors a wide range of opportunities for doing business with great competitive advantages. With the territory of 564 hectares it is located just next to one of the most industrial cities of Uzbekistan Navoi city and 100-175 km from the famous in the world cities as Bukhara and Samarkand.

Navoi FIEZ territory is granted special legal regime including taxation, currency exchange and customs regimes, simplified order for entry, stay and departure, as well as obtaining work permits for non-residents of the Republic of Uzbekistan; extensive tax and customs preferences as well as preferences on other dues are provided<sup>11</sup>.

With the purpose of creating the most favorable conditions for foreign and local investors, all entities in Navoi FIEZ are provided with high-level infrastructure. As well as, the enterprises are provided with adequate transport infrastructure, utilities, and comfortable environment for employees and labor safety systems. It is located in immediate proximity to the Navoi International airport, E-40 highway and railway lines of international significance, which gives an opportunity to gain effectively the advantages of multimodal transport-and-logistics hub of Navoi.

The enterprises registered in Navoi FIEZ are exempted from all types of taxes, including land tax, property tax, profit tax of legal entities, social infrastructure development tax, unified tax payment for micro firms and small-scale enterprises, and compulsory contributions to the Republican Road Fund and off-budget Republican School Fund.

The privileges are provided depending on the amount of investments as below:

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<sup>11</sup> <http://www.fiez.uz/>

- from 3 to 10 million Euro - for 7 years;
- from 10 to 30 million Euro - for 10 years. For the following 5 years rates of profit tax of legal entities and unified tax payment for micro firms and small enterprises are fixed at the level of 50 percent of current rates;

- more than 30 million Euros - for 15 years. For the following 10 years rates of profit tax of legal entities and unified tax payment for micro firms and small enterprises are fixed at the level of 50 percent of current rates.

At the same time, the enterprises that are doing business in Navoi FIEZ are exempted from customs duties (except for customs clearance) for imported equipment, raw materials and components for the production of goods for export for the entire period of operation of Navoi FIEZ.

In addition, Special currency exchange regime allows companies registered in Navoi FIEZ to:

- exercise payments in foreign currency within FIEZ in accordance with the agreements and contracts concluded between them;

- pay in freely-convertible currency for the supply of goods, works and services performed by the business entities - residents of the Republic of Uzbekistan;

- use any convenient conditions and forms of payments for exported and imported goods.

As priority directions of manufacturing activities on the territory of Navoi FIEZ are allowed to produce wide range of high-technologically and globally competitive products by introduction of modern high-performance equipment, technologies and innovations.

The whole territory of Navoi FIEZ is provided with all the necessary conditions to create industrial complexes with full production cycle from raw materials to ready products in different industries.

Based on concept of creation of Navoi FIEZ and identified priorities, enterprises of the following sectors are allowed in Navoi FIEZ: electronics and electro technics; telecommunication equipment; precision machinery production, equipment and component parts; pharmaceutical production and medical equipment; foodstuff processing and packing; plastic and polymer goods.



## CHAPTER 4. FINDINGS OF RESEARCH

This chapter discusses about the findings from the primary research. The findings are come from both primary research, interview conducted with the representatives of SEZs of Uzbekistan, Japan and China, and secondary research, review of existing literatures, books, magazines, internet sources and other publications. The results combined with the secondary research presented in chapters two and three will contribute to the interpretations, conclusions and recommendations of this research work that are included in chapter 5.

### Section 1. INTERVIEW RESULTS

As a primary research of this thesis an interview has been conducted with representatives of Special Economic Zones of Uzbekistan, Japan and China. The goal of conducting an interview is to get answers to questions, compare with each other, analyze and come to the conclusion, and by this way to find answers of some hypotheses.

Interview with Mr. Ismoil Ermatov, Head of Directorate of Navoi FIEZ, was conducted through telephone conversation and correspondence by e-mail between 9-12<sup>th</sup> of May, 2014. Interview with Mr. HaoQiang DENG, Vice president of Shanghai Pudong Kangqiao Industrial Zone, was done by the help of HaiYong Jin, Shanghai city Administration officer, through correspondence by e-mail between 10-20<sup>th</sup> of May, 2014. And finally face-to-face interview with Mr. Tsutomu Hiyane and Mr. Katsuya Shirai, Section Manager and Assistant Manager in Department for General Affairs of Okinawa Prefectural Government, was conducted on May 29, 2014 by the help my supervisor Prof. Ohtaki.

The results of each interview are reviewed in the following subsections respectively.

#### 4.1.1. Findings from interview with head of Directorate of Navoi FIEZ

Findings from interview in terns of Navoi FIEZ are as the followings.

1. Within 5 years 19 enterprises started the production activity on the territory of Navoi FIEZ. As well as construction works are finished on 4 projects and more than 20 new

projects to be implemented. Among operating companies 18 are joint ventures and 3 are foreign enterprises.

2. The selection of investors for location in Navoi FIEZ is carried out in two stages. First the Directorate of Navoi FIEZ considers, within 5 working days, presented documents for correspondence to established requirements. Then, Administrative Board considers investment applications within 10 working days. Totally it takes 15 working days to be resident of Navoi FIEZ.
3. The rights of residents of Navoi FIEZ are defended with the legislation, including regulations on the simplified visa regime and foreign labor force; regulations on procedure of registration as participant; tax regime; customs regime; regulations for selection of investors; and regulation of special currency exchange regime.
4. On the territory of Navoi FIEZ 5 types of businesses are allowed to do as:
  1. Pharmaceutical industry;
  2. Precision Machinery and parts for automobiles industry;
  3. Electronic and electrical products industry;
  4. Food processing and packaging; and
  5. Plastic good and polymers.
5. There are Fire Station and Health Station on the territory of Navoi FIEZ that are providing First Aid in emergency situations, and Police Office, which provides the security of Navoi FIEZ.
6. 2 local banks of Uzbekistan, National Bank of Uzbekistan and Asaka Bank, and 1 foreign bank, Korean Development Bank, are operating at the Financial Centre of Navoi FIEZ at the moment. By the way, any other interested foreign banks are welcomed to operate on the territory of Navoi FIEZ.

#### 4.1.2. Overview the results of interview with Okinawa Prefectural Government representatives

After having an interview with Okinawa Prefectural Government officers there were some findings regarding Okinawa Special Economic Zone. It is difficult measure the territory of Special Economic Zone because 3 types of businesses as 1) Logistics, 2) Manufacturing and 3) Information

and Communication Technology are proposed to be located in that zone. Logistics and manufacturing are located in Special Free Trade Zone in Uruma (122 hectares) and Naha Free Trade Zone (132654 m<sup>2</sup> or 13.265 hectares), but Information and Communication Technology areas cover all of 41 municipalities of Okinawa Prefecture. So it is difficult to announce the territory of Okinawa SEZ in fact.

Another finding is that there are 309 enterprises in the territory of Okinawa SEZ and the share of companies with foreign capital consists of only 1%, because the authority of Okinawa SEZ does not propose to attract foreign investments into the zone. Rather than they would prefer to involve local business entities to do business even though with attraction of modern foreign technology to production process.

The main goal of Okinawa SEZ is improvement of social-economic situation of the prefecture through creating new jobs for population and manufacturing high technologically export oriented products on the territory of the zone.

After review application, business plan and other documents by Selection Committee at Okinawa Prefectural Government, negotiations are conducted with the Committee to start operations. Tax and financial incentives are received after approval of the business by government. In Okinawa SEZ the procedures usually take 1 to 2 years to start new operations, while the shortest period for registration of the company is 3 months.

There is no limitation regarding the type of business on the territory of Okinawa SEZ. Any type of manufacturing except pollution production activity is allowed. But priority is mostly given to logistics and information communication and technology industry. Recycling business isn't allowed.

Tax preferences in Okinawa SEZ are provided in the form of Effective Corporate Tax Rate. The Effective Corporate Tax Rate differs depending on what type of business is proposed, for Logistics Hub Industrial Development Zones it is 18.1% for 5 years and 22.5% for 10 years from 6th to the 10th year after establishment, for IT Zones 17.95% for 5 years and 21.63% 10 years from 6th to the 10th year after establishment. These indices in the other General Areas of Japan are 36.2% for 5 years and 36.05% for 10 years from 6th to the 10th year after establishment.

#### 4.1.3. Findings through interview with Vice president of Shanghai Pudong Kangqiao Industrial Zone

The interview with Vice president of Shanghai Pudong Kangqiao Industrial Zone resulted followings. The territory of this zone with the size of 26.88 km<sup>2</sup> is much more larger than many other SEZs' territory in the world. In the beginning of establishment of the Kangqiao Industrial Zone a special company was set up to develop the zone. The company obtained bank loans as the initiating capital to develop the raw land. It managed to balance the investment by receiving higher profits of residential construction, and then gradually realized the rolling development.

Shanghai Pudong Kangqiao Industrial Zone was founded solely by local government and is managed by Administration of Pudong City not by the central government of PRC. Now there are over 350 foreign enterprises and over 2000 domestic companies. In total it has more than 2350 resident enterprises that shows the Kangqiao Industrial Zone has become really beneficial area of Pudong city. The share of foreign and joint companies is 15%.

The investment is usually conducted in three steps, signing by investor a framework agreement with SEZ, purchasing the usage right of land and construct plants, and registration as an independent firm of the SEZ. The most important requirement is to meet any industries fitting the local orientation for development and to meet the economic indicators, including tax, employment etc. The registration of a new company in the territory of Shanghai Pudong Kangqiao Industrial Zone takes around 3 to 6 months.

Mostly high tech enterprises can enjoy a privileged income tax rate of 15%. According to the nature of the enterprise and some relevant economic indicators, some enterprises can enjoy free rent for office or manufacturing site and also deduction on the fee of water, electricity and other utilities.

Both Central Government of China and local government adopted the legislation and regulations regarding the activity of Shanghai Pudong Kangqiao Industrial Zone. The local government is issued a special regulatory file regarding the privileges and restrictions on the SEZ. Besides, other state-level and local-level laws and policies also govern the development of SEZ, such as economic laws, environmental laws, and local standards, etc.

Anything that violates national laws or regulations are prohibited in the territory of Kangqiao Industrial Zone, such as drug dealing, pornography, gambling, etc. investors should also comply with the environmental regulations on emissions.

There are many policies regarding tax reduction or exemption on both national-wise and local-wise if investors meet with some specific requirements. For example, any firm that is qualified as high-tech enterprise; it is treated with a favored income tax rate of 15% (otherwise 25%). As to Kangqiao industrial zone, half of the local part of tax proceeds (such as income tax, value-added tax and sales tax) will be returned to investor for the first three years of the investment when the investor conducts its major business in the exhibition service industry.

Customs authorities have their offices in our zone, which serves solely for the investors. They also provide convenient access to customs formalities. Since customs duties are the income only enjoyed by the central government, local governments cannot give any reduction on it to their investors. What SEZ can do is to provide fast access to its residents.

Now what the Kangqiao industrial zone doing is still raw land development solely. However, the cost has been increasing drastically these years and benefit from it is going upside down against the cost of development. So the zone has a higher ratio between assets and liabilities. SEZ needs to innovate its business and find a better way to balance the financial problem.

As for the protection from natural disasters, on one hand the Shanghai Pudong Kangqiao Industrial Zone puts great emphasis on the quality of construction, strictly in accordance with the laws and regulations concerning seismic grade, fire protection. On the other hand, it holds various activities and events to strengthen the awareness protection against any emergencies.

Human resources nearby the SEZ are mainly blue-collar workers, especially migrant workers from other parts of China. The municipal government organizes the qualification of employees of the SEZ uniformly. Most of the financial sources is being used for land demolition, municipal facilities construction, property development and construction workers wages and welfare, etc.

## Section 2. COMPARISON OF INTERVIEW RESULTS

The comparison of results of interviews with representatives of Navoi Free Industrial Economic Zone, Shanghai Pudong Kangqiao Industrial Zone and Okinawa Special Economic Zone identified the followings.

1. Kangqiao Industrial Zone is the largest SEZ among 3 zones with the territory 26.88 km<sup>2</sup>, following Navoi FIEZ has a size of 5.64 km<sup>2</sup>, when it is difficult to identify the whole concrete demarcated area for Okinawa SEZ. Because the area for location of logistics and manufacturing business in Special Free Trade Zone in Uruma is 122 hectares and in Naha Free Trade Zone is 13.265 hectares, but Information and Communication Technology areas cover all of 41 municipalities of Okinawa Prefecture.

2. The development infrastructure and utility system construction works in both Navoi FIEZ and Okinawa SEZ have been done for the sources of local or central governments. But conversely in Kangqiao Industrial Zone, at the beginning period, a special company was established to develop the zone. The company obtained bank loans as the initiating capital to develop the raw land. Later that company managed to balance the investment by receiving higher profits of residential construction, and then gradually realized the rolling development.

3. The initiator of establishment of Navoi FIEZ was central government when Kangqiao Industrial Zone and Okinawa SEZ are founded solely by local government, as well as Shanghai Pudong city and Okinawa Prefecture.

4. Nowadays there are more than 2350 resident enterprises in Kangqiao Industrial Zone, over 350 foreign enterprises and over 2000 domestic companies; on the whole Okinawa SEZ there are 309 entities, while in Navoi FIEZ there are only 19 factories that started production activity. But it needs to pay attention that Pudong zone established 22 years ago, Okinawa SEZ 15 years ago and Navoi FIEZ only 5 years ago. The share companies with foreign capital in Navoi FIEZ is 90%, Pudong zone – 15%, and Okinawa SEZ – only 1%.

5. The residents of Navoi FIEZ are selected in 2 steps within 1 month, in Pudong zone in 3 steps within 3 to 6 months, in Okinawa SEZ 2 steps within from 3 months to 1-2 years.

6. In Navoi FIEZ 5 types of businesses are allowed to locate while there is no such kind of limitations in Pudong zone and Okinawa SEZ, except environmental pollution is prohibited from entering the zone. But the purpose of limitation in Navoi FIEZ also connected with environmental pollution manufacturing activities.

7. The residents of Navoi FIEZ are exempted from taxes as Land tax; Property tax; Income tax; Unified tax (for SMEs); Obligatory payment to the Republican Road Fund; and to the Republican Fund of Elementary and Secondary Education.

High tech enterprises in Pudong zone can enjoy a privileged income tax rate of 15%. According to the nature of the enterprise and some relevant economic indicators, some enterprises can enjoy free rent for office or manufacturing site and also deduction on the fee of water, electricity and other utilities.

Effective Corporate Tax Rate in Okinawa Special Economic Zone for Logistics Hub Industrial Development Zones / IT Zones is fixed 18.1% / 17.95% for 5 years and 22.5% / 21.63% for 10 years from 6th to the 10th year after establishment while in the other General Areas of Japan is 36.2% / 36.05%. As well as depending on location each municipals provide different Development Subsidy and Financing Programs.

8. The enterprises registered in Navoi FIEZ and Okianwa SEZ are exempted from customs payments for imported equipment, raw materials and associated items designed to manufacture output for export. When the goods are shipping into domestic market, tariffs and consumption tax must be paid.

But in Pudong zone since customs duties are the income only enjoyed by the central government, local governments cannot give any reduction on it to their investors. What SEZ can do is to provide fast access to its residents.

9. The Special currency exchange regime in Navoi FIEZ allows to exercise payments in foreign currency within FIEZ in accordance with the agreements and contracts, pay in freely-convertible currency for the supply of goods, works and services performed by the business entities of Uzbekistan. But that kind of regime is not available in Puddings Zone and Okinawa SEZ.

## **CHAPTER 5. CONCLUSIONS AND RECOMMENDATIONS**

This part, the final chapter of the current thesis work defines and interprets the findings from the primary research, conducted interview with representatives of 3 different SIZs, which was discussed in the chapter four and findings from the secondary research, wide range of literature reviews covered in chapters two and three. Based on the literature reviews regarding Special Economic Zones in the world and the result conducted interviews, suggestions that might be useful in the strategy implementation of SEZs' development and recommendations for further management of SEZs are proposed. And finally, in this chapter a general conclusion regarding overall purpose of this research work is also made.

### **Section 1. PURPOSE**

As it was mentioned in the introduction of this thesis the main purpose of the research work is to study foreign experiences on development of SEZs and possibility of their implementation in terms SEZs of the Republic of Uzbekistan.

At the meantime, as a job requirement it is tried to find out answers to the question "How to make economic zones successful in attracting firms that create jobs and make them economically sustainable?" through research study of Japanese and Chinese experiences on development of SEZ.

By the way, through the research work, the study of the history of Special zones, the reason of choosing by many countries in the world the approach of development by establishment of SEZs, learning the different types existing in the world SEZs were also purposed.

### **Section 2. ANALYSIS RESULTS**

The research through wide range of literature reviews, conducted interview with representatives of Special Economic Zones in Navoi, Uzbekistan; Pudong of Shanghai, China; and Okinawa, Japan; comparison of interview results and analysis gave much more results than it was



expected.

First of all, research methodology, including the quantitative research and the qualitative research, the differences between them, how to do those kinds of researches, what approaches can be used during the analysis, what result they would give, and others have been learnt.

Secondly, the experience of writing thesis, its formats, requirements to be followed, what approaches can be chosen, and many other issues connected with writing thesis are obtained.

Thirdly, an experience of conducting an interview with people is obtained, as well as how to start the interview, what types of questions to ask, how to manage time and environment and so on. As I had never had an interview it was a great opportunity to learn the ways of conducting interview.

Then, through the research the history of SEZs, the types of SEZs, different existing in the world SEZs has been learnt.

And finally research gave an opportunity to compare the activities of three different SEZ and study the possibility of the implementation of foreign experiences on development of SEZs in the Republic of Uzbekistan.

### Section 3.           LIMITATION

During writing this thesis work there were some limitations came across. For example, the first very important limitation is lack of statistical data, as well as the amount production, export and import that would give an opportunity to compare and do deeply analysis.

Another limitation is that the research mostly based on conducted interview with 3 representatives of Special Economic Zones in Uzbekistan, Japan and Pudong which the results represents the opinion and the views of only few people.

And the last but not least, as time limitation, the research hasn't done with high quality as expected.

#### Section 4. CONCLUSIONS AND RECOMMENDATIONS

After doing the research through wide range of literature reviews and conducting interview I came to conclusions as following.

1. Choosing right location for the establishment of SEZ is very important. If see all successful SEZs, as zones in China, Hong Kong, Taiwan, Singapore, they are located at off shore zone to provide cheap transportation.
2. Not all SEZs are purposing to attract Foreign Direct Investments; instead they try to involve local enterprises to set up business in Special Zones. We can see this in the situation of Okinawa Special Economic Zone.
3. In terms of least developed or new developing countries, as they pay attention to the attraction of Foreign Investments, low attendance of local businesses in the SEZs of that countries is still remaining. That kind situation we can see in African and CIS countries.
4. Today, in such rapidly globalization period, we can be observe that year by year the view of SEZs' authorities also changing. Most of them are changing the area of SEZs from manufacturing activity to financial, logistics and IT spheres.
5. Many Special Economic Zones are claiming for lack of Human Resources, especially in the spheres as engineering, marketing, & IT. This situation is observed even in developed countries also.
6. In some SEZs management is given to private companies and infrastructural development also financed for their own sources or by involving bank loans. Shanghai Pudong Kangqiao Industrial Zone is one such kind of zones.
7. The Special currency regime which allows to exercise payments in foreign currency within the SEZ and pay in freely-convertible currency for the supply of goods, works and services is not adopted in many countries

Based on the conclusions above the following recommendations are suggested for further development of the activity of Navoi FIEZ:

- as Uzbekistan one of the double locked countries in the world, it has no any choice to locate. So it is recommended Navoi FIEZ to develop its infrastructure according to world standards, as well as well as its better to build modern logistics HUB on the base of Navoi International Airport, which is located just nearby Navoi FIEZ.
- Pay attention to attract not Foreign Direct Investments, but modern high technology.
- Establish Development Fund of Navoi FIEZ for further support local business entities to set up production in the zone through providing low interest loans.
- As Navoi region is one of the industrialized region of Uzbekistan, Navoi FIEZ should pay attention to develop industrial manufacturing as a first step, then slightly move to improvement of service industry as finance, logistics, IT and other know how businesses.
- Improve Human Resources Management of Navoi FIEZ, especially in the spheres as engineering, marketing, & IT, through the collaboration with local educational systems by attracting modern well known universities or colleges.

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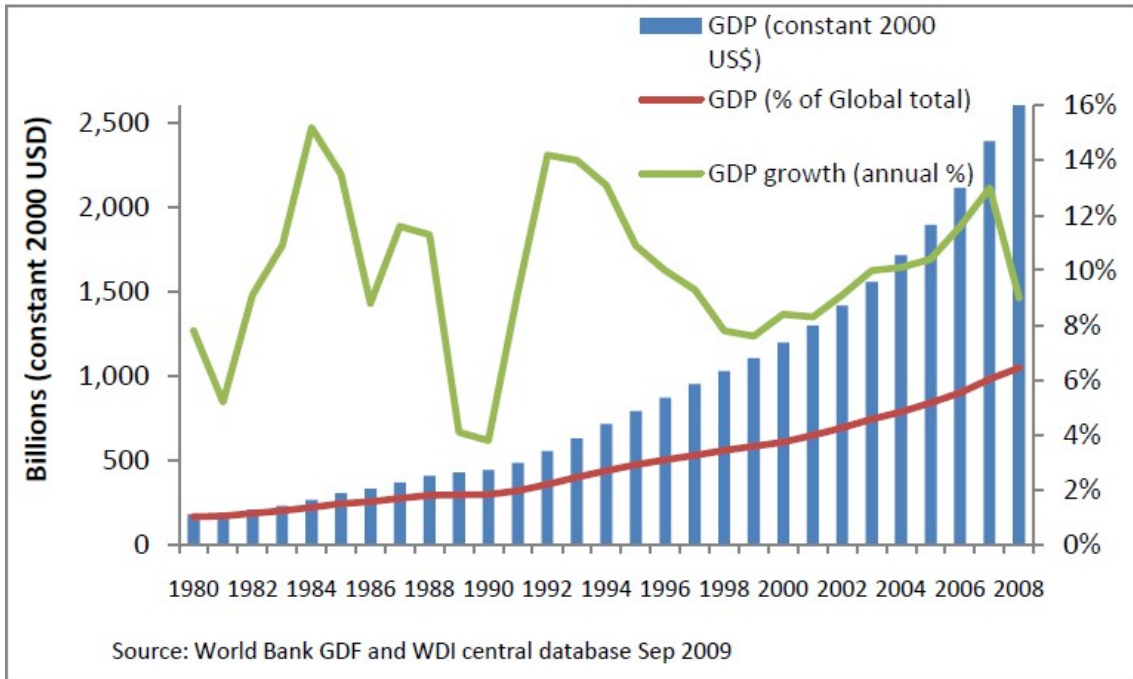
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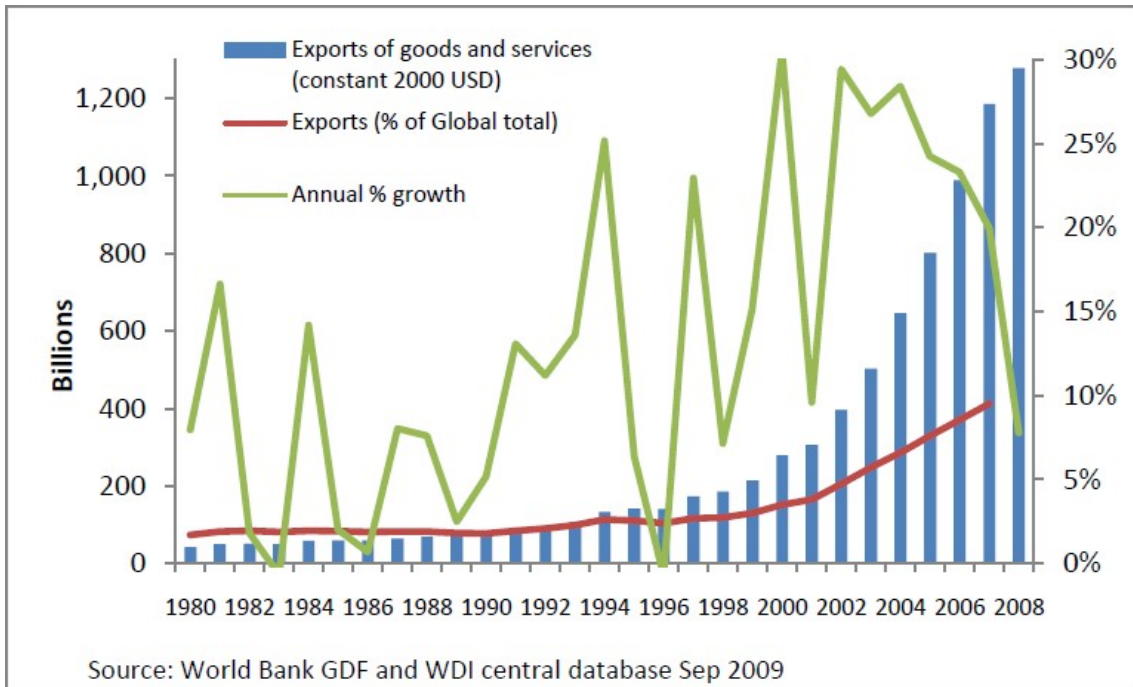
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### Appendix #1. GDP of China between 1980-2008



### Appendix #2. Export of China between 1980-2008



### Appendix #3. List of industrial parks by size

1. Khalifa Industrial Zone Abu Dhabi, Kizad, [Abu Dhabi, United Arab Emirates, when completed, the 418-square-kilometre (161 sq mi)]
2. Alberta's Industrial Heartland, Edmonton Capital Region, AB, Canada – 78,550 acres (318 km<sup>2</sup>)<sup>[2]</sup>
3. Nisku Industrial Park, Leduc County, AB, Canada. 2,044 hectares (20.44 km<sup>2</sup>; 7.89 sq mi) (over 400 businesses and more than 6,000 workers)
4. Cedar Crossing Industrial Park 15,000 acres, in Houston, TX<sup>[3]</sup> 15,000 acres.
5. MidAmerica Industrial Park 9,000 acres, near Tulsa, OK<sup>[4]</sup> 9,000 acres, located near Tulsa, OK.
6. Burnside Industrial Park, Dartmouth, NS, Canada – 3,500 acres (14 km<sup>2</sup>)
7. North West Industrial SDA, Saskatoon, SK, Canada – 3,350 acres (13.6 km<sup>2</sup>)
8. Pureland Industrial Complex, Logan Township, NJ, USA – 3,000 acres (12 km<sup>2</sup>)<sup>[5]</sup>
9. Lakewood Industrial Park, Lakewood, NJ, USA – 2,200 acres (8.9 km<sup>2</sup>)
10. CenterPoint Intermodal Center, Elwood, IL, USA – 2,050 acres (8.3 km<sup>2</sup>)
11. Parque Industrial Pacifico, Tijuana, BC, Mexico – 1,350 acres (5.4 km<sup>2</sup>)
12. Cherry Hill Business Park, New Lenox, IL, USA – 1,000 acres (4.0 km<sup>2</sup>)
13. Cabot Business Park, Mansfield, MA, USA – 900 acres (3.6 km<sup>2</sup>)
14. Bin Qasim Industrial Park, Karachi, Pakistan – 900 acres (3.6 km<sup>2</sup>)
15. Slough Trading Estate, Slough, United Kingdom – 600 acres (2.6 km<sup>2</sup>)
16. Green Valley Industrial Park, Naco, Santa Barbara, Honduras – 500 acres (2 km<sup>2</sup>)
17. Chittagong Export Processing Zone, Chittagong, Bangladesh - 453 acres
18. Green Grove Industrial Park, Mtsensk, Orlovsky District, Russia – 347 acres (140 ha)
19. Electronics City, Bangalore, India – 330 acres (1.3 km<sup>2</sup>)
20. Korangi Creek Industrial Park, Karachi, Pakistan – 300 acres (1.2 km<sup>2</sup>)
21. Karnaphuli Export Processing Zone, Chittagong, Bangladesh - 222.42 acres
22. Technopark Kerala, Trivandrum, India – 180 acres (0.7 km<sup>2</sup>)
23. Rachna Industrial Park, Lahore, Pakistan – 174 acres (0.7 km<sup>2</sup>)
24. Marble City, Lahore, Pakistan – 174 acres (0.7 km<sup>2</sup>)
25. Genesis Industrial Township, Palghar, Maharashtra, India – 150 acres (0.6 km<sup>2</sup>)

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#### **Appendix #4.**

##### **The list of questions for interview with representative of Special Economic Zones of Uzbekistan, China and Japan**

1. When was the Special Economic Zone (SEZ) set up?
2. What is the territory of the SEZ?
3. How was built the infrastructure of the SEZ? What was the source to finance the infrastructure construction of the whole SEZ?
4. Who is the management authority for coordination of SEZ's activity? Government, public/private company or foreign company?
5. How many enterprises are there in the SEZ?
6. Is it allowed to do business in the territory of SEZ for foreign companies? What is the share of foreign companies in the territory of SEZ?
7. What kinds of requirements are there to be resident/member of the SEZ?
8. How long does it take to be resident/member of the SEZ?
9. What types of activities/businesses are allowed in the SEZ?
10. What kinds of benefits and privileges are provided for the residents/members of the SEZ?
11. What are the requirements to be connected to utilities as electricity, gas, water, sewerage and others in the territory of SEZ?
12. What are prices for utility usage in the SEZ?
13. What are the transport connections to the SEZ? Are there any privileges for the transportation of raw materials/ready goods into/from the SEZ?
14. What kinds of laws, acts, rules, regimes or others are adopted regarding the SEZ?
15. Is the Special Currency Exchange Regime is adopted in the territory of SEZ? Is it allowed to use any convenient conditions and forms of payments?
16. How is the regime of entry, departure, residence and hiring of foreign citizens in the territory of SEZ? Are the VISA issues for foreign employees are simplified or the same within the country?
17. What types of privileges or services are provided for foreign employees and their family members to live in the territory of SEZ or nearby?
18. Are there any special activities, which are not allowed by local legislation to do on the territory of SEZ?
19. How are the regulations on a procedure for securing a tax regime on the territory of SEZ?
20. How are the regulations on a special customs regime on the territory of SEZ?
21. What kinds of measurements have been done to attract more foreign investments and technologies into the SEZ?
22. Does the SEZ still have the problems that need to be solved? What are they?
23. What should be done to operate successfully the activity of the SEZ?
24. How is the coordination of the SEZ's activity organized? Who is coordinating? How the residents of SEZ are controlled?
25. What kinds of measurements have been done to provide the security of residents/members of the SEZ against emergency conditions (earthquake, fire accidents, hurricane, typhoon and others)?
26. Whom can investor contact in the situation of law violation and if he doesn't believe to the authority of the SEZ?
27. What types of insurance systems are available in the territory of SEZ?
28. Is the Single Window System available, which can facilitate trade agreements with partners in abroad?
29. How well is the financial system organized on the territory of SEZ?
30. How is the intellectual potential of the population nearby the SEZ? How the qualification of employees of the SEZ is organized?



Appendix #5.

**Answers of representatives of Navoi Free Industrial Economic Zone, Shanghai Pudong Kangqiao Industrial Zone and Okinawa Special Economic Zone to the interview questions**

#	Question	Ismoil Ermatov – Head Directorate of Navoi FIEZ (Uzbekistan)	HaoQiang DENG - Vice president of Shanghai Pudong Kangqiao Industrial Zone (Shanghai, China)	Tsutomu HIYANE – Section Manager of Department for General Affairs, Okinawa Prefectural Government (Japan)
1.	When was the Special Economic Zone (SEZ) set up?	December 2 <sup>nd</sup> , 2008.	It was founded in 1992.	Free Trade Zone was designated in March 1999.
2.	What is the territory of the SEZ?	Total territory: 564 ha (5.64km <sup>2</sup> ). Area for accommodation of production factories: 350 ha (3.5km <sup>2</sup> ). Distance to: Navoi Airport – 1 km, Hanjin Navoi complex – 2 km, Samarkand – 120 km, Bukhara – 95 km.	Kangqiao Industrial Zone has a size of 26.88 square kilometers.	3 types of businesses are proposed to be located in Okinawa Special Economic Zone as below: 1) Logistics and 2) Manufacturing, which are located in Special Free Trade Zone in Uruma (122 hectares) and Naha Free Trade Zone (132654 m2 or 13.265 hectares) 3) Information and Communication Technology areas cover all of 41 municipalities of Okinawa Prefecture.
3.	How was built the infrastructure of the SEZ? What was the source to finance the infrastructure construction of the whole SEZ?	Infrastructure construction was done by major state companies. Construction of infrastructure was 100% financed by government budget.	At the beginning period, we established a special company to develop the zone. The company obtained bank loans as the initiating capital to develop the raw land. We managed to balance the investment by receiving higher profits of residential construction, and then gradually realized the rolling development.	Infrastructure is built for the source of Okinawa Prefecture.
4.	Who is the management authority for coordination of SEZ's activity? Government, public/private company or foreign company?	Operative management of Navoi FIEZ is conducted by the Directorate, established in the form of State unitary enterprise with status of legal entity.	It was founded solely by local government and is managed by Administration of Pudong City.	Management authority is Administration of Okinawa Prefectural Government.
5.	How many enterprises are there in the SEZ?	19 Enterprises are already started production activity on the territory of Navoi FIEZ. As well as construction works are finished on 4 projects and more than 20 new projects are studied to be implemented.	Now there are over 350 foreign enterprises and over 2000 domestic companies. In total it has more than 2350 resident enterprises.	At the moment on the whole Okinawa SEZ there are 309 entities.
6.	Is it allowed to do business in the territory of SEZ for foreign companies? What is the share of foreign companies in the territory of SEZ?	18 companies were set up as Joint Ventures, 3 companies as Foreign Enterprises, and there are 2 local companies. So the share of foreign and joint companies is 90%.	Within the governance of law a foreign company can have a 0 to 100 percent of share in an invested company as wish. So the share of foreign and joint companies is 15%.	Okinawa Special Economic Zone is not proposed for attraction of foreign companies and investments. Share of foreign companies is only 1%.

7.	What kinds of requirements are there to be resident/member of the SEZ?	<p>The selection of investors for location in Navoi FIEZ is carried out in two stages. At the first stage, the investor presents to the Directorate of Navoi FIEZ filled in investment application. Presented documents are considered by Directorate, and handed over to the Administrative Board with the relevant conclusion enclosed. The Administrative Board takes decision on selection of investor for location of production on the territory of Navoi FIEZ.</p>	<p>The investment is usually conducted in three steps. First, the investor is required to sign a framework agreement with SEZ concerning about the investment size, industry, and utilities, privileges provided by SEZ, etc. Second, if the investor needs to purchase the usage right of land and construct plants, this would be done through an open auction or mutual agreement. Third, the investor is required to register an independent firm located in the SEZ. The most important requirement is to meet any industries fitting the local orientation for development. We also require investors to meet the economic indicators, including tax, employment etc.</p>	<p>Application, business plan and other documents are submitted to Selection Committee at Okinawa Prefectural Government. After initial decision notification depending on purchasing or leasing a lot, or leasing a factory, negotiations are conducted with Selection Committee to start operations. To receive tax and financial incentives, the business must be approved by government. Bonded Authorization to the authorization received for bonded warehouses etc. from Okinawa Regional Customs Chief by stipulation in Customs Law.</p>
8.	How long does it take to be resident/member of the SEZ?	<p>First the Directorate considers, within 5 working days, presented documents for correspondence to established requirements. Then Administrative Board considers investment applications within 10 working days. Totally it takes 15 working days to be resident of Navoi FIEZ.</p>	<p>The registration period for a new company on the territory of Shanghai Pudong Kangqiao Industrial Zone is around 3 to 6 months.</p>	<p>In Okinawa Special Economic Zone the procedures usually take 1 to 2 years to commence operations. The shortest period for registration of the company is 3 months.</p>
9.	What types of activities/businesses are allowed in the SEZ?	<p>5 types of activities are allowed: 1. Pharmaceutical industry; 2. Precision Machinery and parts for automobiles industry; 3. Electronic and electrical products industry; 4. Food processing and packaging; and 5. Plastic good and polymers</p>	<p>Anything within the law is allowed. However, some industries manufacturing which have environmental pollution is prohibited from entering the zone.</p>	<p>Any type of manufacturing except pollution production activity is allowed. But priority mostly given to logistics and information communication and technology industry. Recycling business isn't allowed.</p>
10.	What kinds of benefits and privileges are provided for the residents/members of the SEZ?	<p>The residents of Navoi FIEZ are exempted from <u>taxes</u> as Land tax; Property tax; Income tax; Unified tax (for SMEs); Obligatory payment to the Republican Road Fund; and to the Republican Fund of Elementary and Secondary Education. For the whole period of functioning enterprises are exempted from <u>customs duties</u> for imported equipment, raw materials and production components.</p>	<p>High tech enterprises can enjoy a privileged income tax rate of 15%. According to the nature of the enterprise and some relevant economic indicators, some enterprises can enjoy free rent for office or manufacturing site and also deduction on the fee of water, electricity and other utilities.</p>	<p>Effective Corporate Tax Rate in Okinawa Special Economic Zone for Logistics Hub Industrial Development Zones / IT Zones is fixed 18.1% / 17.95% for 5 years and 22.5% / 21.63% for 10 years from 6<sup>th</sup> to the 10<sup>th</sup> year after establishment while in the other General Areas of Japan is 36.2% / 36.05%. As well as depending on location each municipals provide different Development Subsidy and Financing Programs.</p>

11.	What are the requirements to be connected to utilities as electricity, gas, water, sewerage and others in the territory of SEZ?	There are no requirements. All utilities are set up within the whole territory. So, business entities can be connected to the utilities from the connection point, which is the closest to them.	Enterprises entitled to connect utilities should be those that are legally registered and having the legal right of using or leasing the property in the zone. For subsequent use, they must pay the corresponding fees.	The requirement is to be resident of Okinawa Special Economic Zone and sign appropriate contracts with utility provider companies.
12.	What are prices for utility usage in the SEZ?	Electricity – 131 Soum for 1 kWh (\$0.057) Gas – 160 Soum for 1 m <sup>3</sup> (\$0.07) Drink water – 505 Soum for 1 m <sup>3</sup> (\$0.22) Garbage – 190,000 Soum for 1 month (\$82.61). (Rate: 1USD=2300Soum)	Electricity and water for industrial use are more expensive than that for civil use. Utility price for industrial and commercial use (in RMB): Electricity: Depending on usage of electric power (Low-Voltage, Commercial, High-Voltage, Specified-Scale Power) and season, it varies from ¥0.31 to ¥1.04/ per kWh (\$0.05~0.168) Water: ¥2.67/m <sup>3</sup> (\$0.43) Gas: ¥2.40-2.60/m <sup>3</sup> (\$0.387-0.42) (Rate: 1USD=¥6.2)	Industrial water - ¥70 for 1 m <sup>3</sup> (\$0.69). Electricity: Depending on usage of electric power (Low-Voltage, Commercial, High-Voltage, Specified-Scale Power) and season, it varies between ¥11.9 and ¥16.33 for 1 kWh (\$0.117~0.16) (Rate: 1USD=¥101.5)
13.	What are the transport connections to the SEZ? Are there any privileges for the transportation of raw materials/ready goods into/from the SEZ?	Railway station and logistical center is located within the territory, as well as, International Airport Navoi (Korean Air Cargo) is located 4 km from the Navoi FIEZ.	The transportation connected to the zone is mainly by land transport, especially by motor transport. We don't provide special preferential policies for logistics service.	All types of transportation are available nearby territory of Special Economic Zone.
14.	What kinds of laws, acts, rules, regimes or others are adopted regarding the SEZ?	<ul style="list-style-type: none"> <li>- Regulations on the simplified visa regime and foreign labor force;</li> <li>- Regulations on procedure of registration as participant</li> <li>- Tax regime of Navoi FIEZ;</li> <li>- Customs regime of Navoi FIEZ</li> <li>- Regulations for selection of investors;</li> <li>- Regulation of special currency exchange regime.</li> </ul>	Our local government entitles us the sole entity as the developer of the SEZ. We are also entitled to share the tax generated by the residential enterprises with the local government. A special regulatory file is issued by the local government regarding the privileges and restrictions on the SEZ. Besides, other state-level and local-level laws and policies also govern the development of SEZ, such as economic laws, environmental laws, and local standards, etc.	Okinawa Prefectural Government adopted the rules regarding of enterprises set up and control of Okinawa Special Economic Zone. Other main issues as tax, customs and others are controlled according to the legislation that is adopted by Legislation Authority of Japan.
15.	Is the Special Currency Exchange Regime is adopted in the territory of SEZ? Is it allowed to use any convenient conditions and forms of payments?	Currency regime Provision applies only to business entities registered as Navoi FIEZ participant, solely in Navoi FIEZ.	We don't have special currency exchange regime on the exchanging for the residential enterprises. All is provisioned by the national authority of currency exchanging.	Currency Exchange Regime is controlled according to the National legislation of Japan. There is no Special Currency Exchange Regime for Okinawa Special Economic Zone.

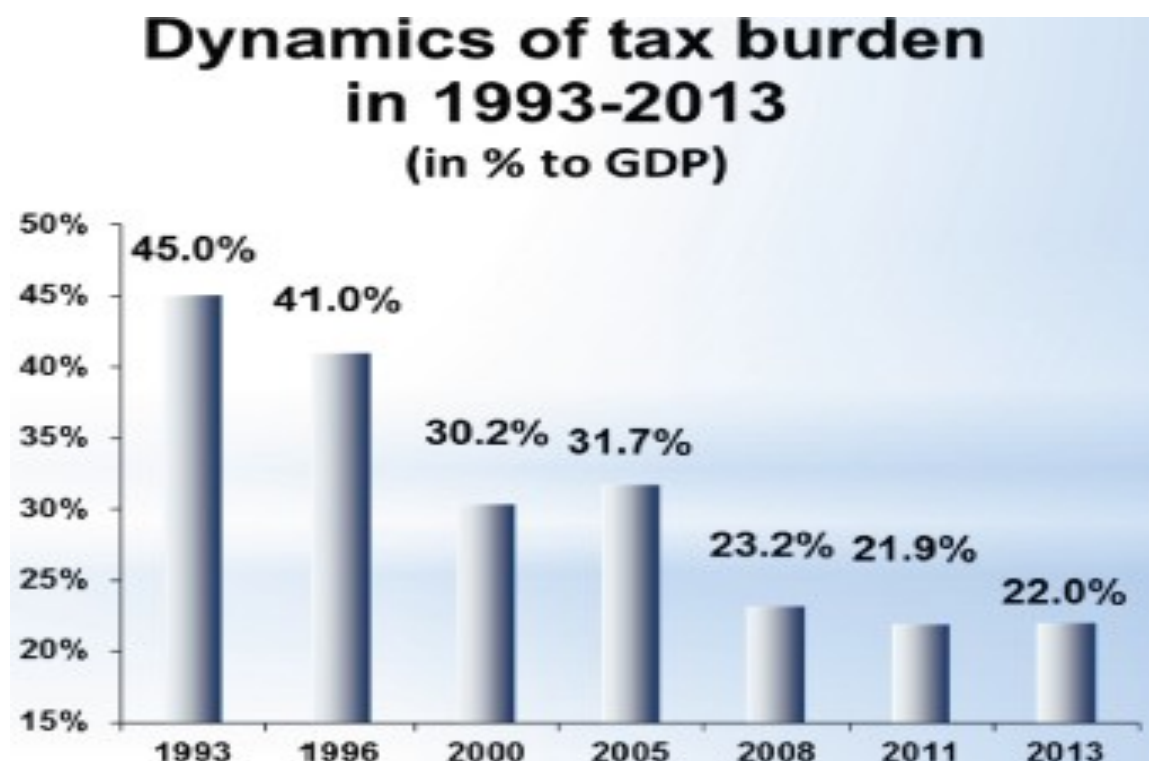
16.	How is the regime of entry, departure, residence and hiring of foreign citizens in the territory of SEZ? Are the VISA issues for foreign employees are simplified or the same within the country?	Visa procedures, hiring of foreign citizens, regime of entry and departure procedures is done for free of charge. There is special regulation in FIEZ Navoi, which is simplified to obtain labor force license and visas.	We provide convenient services specifically for foreign investors, including schooling for their children, medical facilities support, etc. As for visa, it is uniformly governed by national provisions.	The regime of entry, departure, residence and hiring of foreign citizens on the territory of Okinawa Special Economic Zone is the same with existing national regime. Nuance is that VISA for tourists from China and Taiwan is given for longer period than other tourists.
17.	What types of privileges or services are provided for foreign employees and their family members to live in the territory of SEZ or nearby?	There are comfortable hotels or Residential Complex, which was built and managed by registration famous company Korean Air nearby Navoi FIEZ.	We facilitate our investors mainly through market means. Our zone provides privileges on information sharing and assisting to handle the relevant formalities concerning the government side.	Okinawa, being surrounded by abundant nature, offers not only entertaining resort time, but also a comfortable life for residents and foreign people. Convenient environments fitting for various scenes in life such as daily necessities, schools, and medical services support your life in Okinawa.
18.	Are there any special activities, which are not allowed by local legislation to do on the territory of SEZ?	There is no any special legal act, which prohibits any activity to do on the territory of Navoi FIEZ, except activities that are prohibited to do according to the legislation of the Republic of Uzbekistan.	Anything that violates national laws or regulations are prohibited in the SEZ, such as drug dealing, pornography, gambling, etc. investors should also comply with the environmental regulations on emissions.	There is no any special activity that is prohibited by local legislation of Okinawa Prefecture.
19.	How are the regulations on a procedure for securing a tax regime on the territory of SEZ?	Participants of Navoi FIEZ are exempt from payment of land tax, property tax, profit tax imposed on legal entities, tax imposed on improvement and development of social infrastructure, unified tax payment imposed on microfirms and small enterprises, mandatory deductions to the Republic Road Fund and School Education Fund. These privileges are granted where a volume of direct investments is (equivalent): from 3 to 10 million Euro - for 7 years; from 10 to 30 million Euro - for 10 years. In subsequent 5 years rates of profit tax imposed on legal entities and unified tax payment for microfirms and small enterprises are established in the amount of 50 per cent of current rates; over 30 million Euros - for 15 years. In subsequent 10 years rates of profit tax imposed on legal entities and unified tax payment for microfirms and small enterprises are established in the amount of 50 per cent of current rates.	It is all governed by national laws and policies. We have value-added tax, enterprise income tax, personal income tax and other taxes. There are many policies regarding tax reduction or exemption on both national-wise and local-wise if investors meet with some specific requirements. For example, any firm that is qualified as high-tech enterprise; it is treated with a favored income tax rate of 15% (otherwise 25%). As to Kangqiao industrial zone, half of the local part of tax proceeds (such as income tax, value-added tax and sales tax) will be returned to investor for the first three years of the investment when the investor conducts its major business in the exhibition service industry.	Depending on the location and type of business Administration of Okinawa Prefecture provides incentives such as Income Tax Deduction, Investment Tax Deduction, Special Depreciation, Choice of Items to which Tariffs Apply, Discount on Bonded Area Authorization Fee, Partial Exemption from Business Tax, Partial Exemption from Real Estate Acquisition Tax, Partial Exemption from Fixed Assets Tax, Reduction of Office Tax.

20.	How are the regulations on a special customs regime on the territory of SEZ?	<p>The territory of Navoi FIEZ is the customs territory of Uzbekistan. At the same time:</p> <ul style="list-style-type: none"> <li>• Equipment, raw materials and associated items designed to manufacture output for export, imported to the territory of Navoi FIEZ by participants of Navoi FIEZ, irrespective of a country of origin are drawn up under the “Free customs zone” customs regime.</li> </ul> <p>This means that enterprises registered in Navoi FIEZ are exempted from customs payments for imported equipment, raw materials and associated items designed to manufacture out- put for export for the entire term of operation of the Navoi Free Industrial Economic Zone;</p> <p>Other goods under free circulation in the customs territory of the Republic of Uzbekistan are moved freely to/from the territory of Navoi FIEZ;</p> <p>Equipment, raw materials, materials and associated items designed to manufacture output for export imported to the territory of Navoi FIEZ from the rest of customs territory of the Republic of Uzbekistan are placed on terms applied to export in accordance with the customs export regime.</p>	<p>Customs authorities have their offices in our zone, which serves solely for the investors. They also provide convenient access to customs formalities. Since customs duties are the income only enjoyed by the central government, local governments cannot give any reduction on it to their investors. What SEZ can do is to provide fast access to its residents.</p>	<p>The bonded area is a designated area where imported goods can be stored, processed, and exhibited without payment of tariff or domestic consumption tax.</p> <p>A corporation that receives authorization for a bonded area from the customs chief:</p> <ol style="list-style-type: none"> <li>1. Is exempt from tariffs and domestic consumption tax when imported foreign goods are processed/manufactured and re-exported.</li> <li>2. Is exempt from tariffs and domestic consumption tax when storing, inspecting, and sorting imported goods. These goods can be exported or shipped domestically based on market demand. When shipping domestically, tariffs and consumption tax must be paid.</li> <li>3. Is exempt from tariffs and domestic consumption tax when returning goods overseas or disposing of defective items.</li> </ol>
21.	What kinds of measurements have been done to attract more foreign investments and technologies into the SEZ?	<p>Every year the more than 50 presentations about Navoi FIEZ are organized in Uzbekistan and foreign countries.</p>	<p>In the early past, we attracted foreign investors by providing preferential policies, like tax and low price land. Now we do this mainly by creating good environment, enhancing quality of service.</p>	<p>Except industries that are allowed to do on the territory of Okinawa SEZ local authority is trying to develop tourism also. Instead of attracting foreign investments to Okinawa SEZ they are attracting tourists to visit Okinawan resort facilities. In 2012 the number of tourists who visited Okinawa was 5.85 mln. people that was 4 times of population of that prefecture.</p>
22.	Does the SEZ still have the problems that need to be solved? What are they?	<ol style="list-style-type: none"> <li>1. Although 5 years passed after establishment of Navoi FIEZ only 19 entities commenced operations.</li> <li>2. Transport system for employees is not organized well enough.</li> <li>3. Lack of human resources with the knowledge of pharmacy, IT, engineering and other some areas that are needed in</li> </ol>	<p>Now what we are doing is still raw land development solely. However, the cost has been increasing drastically these years and benefit from it is going upside down against the cost of development. Now we have a higher ratio between assets and liabilities. We need to innovate our business and find</p>	<p>After the Great East Japan Earthquake, which was in March 2011, Administration of Okinawa Prefecture proposed to develop Okinawa International Aerial Logistics Hub at Naha International Airport. HUB collaborates with 33 points both overseas and in Japan and has the 2nd largest aerial network after Haneda Airport. Japanese air</p>

		manufacturing process.	a better way to balance the financial problem.	company ANA & logistics company Yamato are acting as main developers of HUB, companies as Toshiba and Rakuten are as developers of warehouses. Main problem for Okinawa is lack of IT industry specialists, Human Resources development, Marketing and distribution is not well developed.
23.	What should be done to operate successfully the activity of the SEZ?	Involve not only foreign investors but also local business entities to do business in Navoi FIEZ, to improve the investment climate through providing well transport system and wall gardening around Navoi FIEZ.	As for success, firstly you must build a high quality team. Secondly, you need to select good location for zone construction and also get sufficient capital. You also need to have a well-balanced model of capital.	Attract more companies to set up businesses on the territory of Okinawa Special Economic Zone.
24.	How is the coordination of the SEZ's activity organized? Who is coordinating? How the residents of SEZ are controlled?	Operative management of Navoi FIEZ is conducted by the Directorate, established in the form of State unitary enterprise with status of legal entity. The Directorate of Navoi FIEZ: - registers participants of Navoi FIEZ; - provides participants of Navoi FIEZ and other economic establishments with land plots; - manages state ownership immovable property located in Navoi FIEZ; - exercises control for the proper fulfillment of undertaken obligations by investors; - files an application to a court to terminate investment agreements if undertaken obligations have not been fulfilled; - carries out other functions related to operative management of Navoi FIEZ.	Our company has a collective decision-making mechanism that enables us to react quickly to the market change both domestically and globally. We also have a joint conference with the local government and the SEZ. Sometimes the coordination function can be undertaken by our company and sometimes it is done by the local government. And sometimes business associations for specific industries also take a part in the coordination and decision-making, depending on the issues concerned. We also have an effective channel to keep in close touch with the dynamics of our investors and provide timely services for them.	Okinawa Prefectural Government and municipal authorities are responsible for the coordination of the activity of Okinawa Special Economic Zone.
25.	What kinds of measurements have been done to provide the security of residents/members of the SEZ against emergency conditions (earthquake, fire accidents, hurricane, typhoon and others)?	On the territory of Navoi FIEZ there are Fire Station and Health Station that are providing First Aid in an emergency situations, Police Office which provides the security Navoi FIEZ.	As for protection from natural disasters, on one hand we put great emphasis on the quality of construction, strictly in accordance with the laws and regulations concerning seismic grade, fire protection. On the other hand, we hold various activities and events to strengthen the awareness protection against any emergencies.	As Okinawa Prefectural Government holds the control over Okinawa Special Economic Zone it can involve appropriate authority of the local government against emergency conditions as earthquake, fire accidents, hurricane, typhoon and others.

26.	Whom can investor contact in the situation of law violation and if he doesn't believe to the authority of the SEZ?	They are able to contact any Law Enforcing Bodies, Court of Justice either in Uzbekistan or in abroad, embassies of their countries to Uzbekistan.	When confronting disputes, our investors can also go to trade unions, associations, and other sectors to reflect problems, where a wider coordination is accessible.	To solve any kinds of issues investors can contact to Industrial Site Support Center in Uruma or Industrial Site Promotion Division of Department of Commerce, Industry & Labor at Okinawa Prefectural Government. At the same time we have offices in Tokyo, Osaka, Nagoya, Taipei, Hong Kong, Shanghai and in Beijing. If they want they can contact any organization that has a right to defense their rights within or outside of Japan.
27.	What types of insurance systems are available in the territory of SEZ?	All types insurance systems within Uzbekistan are also available on the territory of Navoi FIEZ.	We don't provide special insurance systems for our residential enterprises.	It is not adopted Special insurance system for Okinawa Special Economic Zone; Insurance system of Okinawa is the same with Japan insurance system.
28.	Is the Single Window System available, which can facilitate trade agreements with partners in abroad?	There is an Administrative Building on the territory of Navoi FIEZ, which enables residents to submit regulatory documents at the Directorate of Navoi FIEZ.	Yes, we have single window system for dealing with the concerning issues, which is formed by different departments of related government authorities.	No it is not available, to solve different issues you need to go to responsible departments.
29.	How well is the financial system organized on the territory of SEZ?	At the moment 2 local banks of Uzbekistan, National Bank of Uzbekistan and Asaka Bank, and 1 foreign bank, Korean Development Bank, are operating at the Financial Centre of Navoi FIEZ. Any other interested foreign banks can operate on the territory of Navoi FIEZ with great pleasure.	Most of our money is being used for land demolition, municipal facilities construction, property development and construction workers wages and welfare, etc.	In each city, district and municipality there are several branch offices of banks as Japan Post Bank, Mitsubishi UFJ, SMBC, Mizuho and other banks that are providing financial services. Meanwhile, in July 2002 Nago city designated a special zone, which is called "Special Financial Zone" with the purpose of development of Finance system in Okinawa.
30.	How is the intellectual potential of the population nearby the SEZ? How the qualification of employees of the SEZ is organized?	There are 51 professional colleges and 2 higher educational institutes in Navoi region that provide more than 15 thousand specialists in a year. As well as two biggest regions of Uzbekistan after capital city - Tashkent, Samarkand and Bukhara, are bordering with Navoi, which also can provide high intellectual human capitals to Navoi FIEZ.	Human resources nearby are mainly blue-collar workers, especially migrant workers from other parts of China. The qualification of employees of the SEZ is organized uniformly by our municipal government.	There are 10 Universities, Colleges, and Higher Colleges of Technology, and 6 Private Junior and High Schools in Okinawa that are providing an excellent educational environment. According to the data of Okinawa Labor Department 3641 students are graduating from Universities, 585 students of Junior Colleges, 15770 students of High Schools and 4055 students of Vocational Schools.

**Appendix #6. Dynamics of tax burden in Uzbekistan between 1993-2013**



Source: <https://www.investuzbekistan.uz>.

**Appendix #7. Tax rates in Uzbekistan between 1992-2013**

Taxes	Tax rates in 1992-2009	Tax rates in 2013
Legal entities income tax	45%	9%
Individual income tax	13%-60%	8%-22%
Value added tax	30%	20%
Single social payment	40%	25%
Single tax payment for small enterprises	15,2%	6% (in industry - 5%)

Source: <https://www.investuzbekistan.uz>.



**Appendix #8. Fast growing countries**



Source: <https://www.maplecroft.com>.

**Appendix #9. Fast growing countries by 2050**



Source: The World in 2050, Global Research by HSBC, January 2012.