

THE ROLE OF FREE ECONOMIC ZONES IN THE DEVELOPMENT OF SMALL BUSINESS IN THE SERVICE SECTOR

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Abstract:

This article examines the organizational and economic challenges encountered in the development of small businesses within the service sector and explores possible solutions to these issues. In particular, it analyzes the opportunities and privileges provided by free economic zones for small business entities and their role in enhancing investment attractiveness. The service sector plays a crucial role not only in improving the quality of life of the population but also in increasing employment, fostering a competitive environment, and promoting innovative activities. Therefore, free economic zones are regarded as one of the key mechanisms for supporting small businesses and modernizing the service sector within the framework of the country's long-term economic development strategy.

Keywords: Small business, service sector, free economic zones, organizational and economic challenges, investment attractiveness, state policy, innovative services, competitiveness, economic development.

Introduction

The service sector is considered one of the most dynamically developing branches of the modern economy. In the context of Uzbekistan, small business entities have become the main driving force of this sector, playing a significant role in creating new jobs, providing quality services to the population, and shaping a competitive domestic market. However, in practice, a number of organizational and economic problems exist in the development of small businesses, which hinder the full realization of this sector's potential efficiency.

In the process of developing small businesses in the service sector, free economic zones (FEZs) play a particularly significant role. They create a favorable business environment for small entrepreneurial entities and serve to effectively address existing organizational and economic challenges. From this perspective, free economic zones are regarded as one of the key mechanisms for supporting small business development.

Firstly, tax and customs benefits reduce the financial burden on small business entities. These benefits allow them to continue their activities steadily, make investments, and expand the types of services they provide. Secondly, the formation of modern infrastructure increases the efficiency of small business activities in the FEZ territories. The presence of transport, logistics, information and communication technologies, and service centers improves the quality of services and facilitates entrepreneurial processes. Thirdly, innovative opportunities play an important role in providing small businesses with modern solutions. The activities of

technoparks, business incubators, and startup centers create conditions for the development of new types of services and their rapid implementation. Fourthly, international cooperation opportunities serve to integrate small businesses into the global market. The attraction of foreign investments in FEZ territories leads to an increase in export potential and the creation of new jobs in the service sector.¹

Practical experience shows that the “Navoi” Free Industrial-Economic Zone, the “Angren” and “Jizzakh” Free Industrial Zones established in Uzbekistan, as well as other territories oriented toward service activities, are creating favorable conditions for small businesses and enabling the development of new types of services. This not only ensures economic growth but also serves as an important factor in increasing employment and improving the quality of services in the service sector.

Free economic zones (FEZs) occupy a special place in the development of small businesses in the service sector. Therefore, the need for a serious approach to this issue has led to its study as an independent scientific and practical field. This, first of all, requires a deep understanding of the essence and content of FEZs and a correct assessment of their significance within the economic system. The process of scientifically studying FEZs began to develop widely around the world in the 1970s. In modern economic literature and practical documents, various terms are used to describe free economic zones. In particular, such terms as “free economic zone,” “free customs zone,” “special economic zone,” “free enterprise zone,” “free trade zone,” “free export zone,” and “duty-free zone” are widely used. In the 1980s, about 20 types of FEZs were identified, while by the 1990s, their number was estimated to exceed 30.²

In contemporary economic literature, more than 40 terms are used to describe FEZs. This indicates that the concept of free economic zones does not have a single definition, and various economists and specialists interpret it differently based on their scientific approaches and practical experience. According to American scholars M.Fraze and R.Renal, “a free economic zone is one of the oldest and most modern ideas in the path of human development”.³ In scientific manuals published under the guidance of Russian scholar I.P.Fominsky, free economic zones are interpreted as special territories that provide privileges in relation to the general economic activity regulations established in the country.⁴

In particular, the historical roots of FEZs date back to ancient times, and they continue to hold significant relevance in the modern economy. Today, they provide not only large industrial enterprises but also service sector and small business entities with innovative solutions, tax and customs benefits, as well as opportunities for international cooperation. Therefore, FEZs can be considered one of the effective organizational and economic mechanisms for the development of small businesses.

Russian scholar D. Adrianov defines free economic zones as follows: “Free economic zones are parts of a national territory that create broad opportunities for solving economic problems

¹ Xujamkulov D.Y. Erkin iqtisodiy hududlar. Darslik. –T.: IQTISODIYOT, 2019. – 408 b.

² Зименков Р.И. Свободные экономические зоны. Уч. пос. - М.: Юнити, 2005. – С. 5

³ Зименков Р.И. Свободные экономические зоны. Уч. пос. - М.: Юнити, 2005. – С. 5

⁴ Фоминский И.П. Иностранные инвестиции в России: современное состояние и перспективы. – М.: Международное отношение, 1995. – С. 234

and provide significant conveniences for both foreign and domestic entrepreneurial activities”.⁵ According to E.F. Avdokushin, “A free economic zone is a specific part of a country that is aimed at addressing socio-economic and technological challenges and possesses a distinctive management system that creates special conditions for economic entities to carry out their activities”.⁶ From these definitions, it is evident that free economic zones provide important organizational and economic opportunities not only for large enterprises but also for small business entities, particularly in the service sector. They ensure sustainable development and competitiveness in the service sector by reducing the financial burden on small businesses, providing access to modern infrastructure and innovative solutions, and expanding opportunities for international cooperation.

As emphasized above, free economic zones play an unparalleled role in addressing the organizational and economic challenges of developing small businesses in the service sector. Research by various foreign and local scholars indicates that free economic zones not only enhance economic activity but also increase investment attractiveness for small businesses and the service sector, promote innovative activities, and become a factor for sustainable development.

In the studies of South Korean scholar Kim, free economic zones are interpreted as “territories specially established for foreign countries, enterprises, and firms, where their businesses and employees can generate income within the framework of existing laws and regulations due to the privileges granted by the government.” He emphasizes that the purpose of establishing such zones is to create a more economically transparent environment compared to other regions, to increase the flow of investments, and to develop competitive industrial and trade systems.⁷

Additionally, V. Papava defines free economic zones as “economic territories separated from other regions, where the state provides special privileges and conveniences”.⁸ This definition also highlights the significant role of such zones in improving the economic environment and creating specific conveniences for business entities.

Scholars in our country have also paid special attention to this issue and expressed their scientific views. In particular, A.V.Vakhobov defines free economic zones as “geographical territories that are part of the national economic space where state intervention in economic processes is reduced and a system of privileges not applied in other regions of the country is implemented”.⁹ According to S.S.Mirzalieva, free economic zones are “territories established within a country to address social, economic, and technological tasks, possessing special administrative management and a preferential regime for economic entities”.¹⁰ M.A.Raimjonova defines them as “territories with a special economic regime where state

⁵ Адрианов В.Д. Специальные экономические зоны. Журнал “ЭКО”, 1997. , №3. – С. 42.

⁶ Авдокушин Е.Ф. Международные экономические отношения. Учебное пособие. – М.:, 2004. – С. 120

⁷ Kim Young Rae. The study on issues related between limits of land development and total control restriction system in the actual conditions within capital region, Seoul National University of Technology, 2009. – R. 8-75

⁸ Papava Vladimer. The Immortal idea of a free economic zone, Georgian Foundation for Strategic and International Studies, 2007. – R. 1-16

⁹ Vaxobov A.V. va boshqalar. Xorijiy investitsiyalar. O.,quv qo,,llanma. Toshkent: Moliya, 2010.– B. 180

¹⁰ Mirzalieva S.S. Erkin iqtisodiy zonalarni rivojlantirishning xorij tajribasi. Diss. avtoref. i.f.n. Toshkent: 2001. B. 8

intervention is reduced but not completely eliminated, and a system of privileges and incentives is implemented that does not apply in other regions of the country”.¹¹

A.A.Ostonakulov explains free economic zones as “territories with special privileges established to rapidly promote the socio-economic development of regions and economic sectors, attract investments, modernize and diversify the economy, and implement modern technologies”.¹² The significance of this definition lies in the fact that free economic zones are seen not only as a means of attracting investments but also as a territorial mechanism for accelerating innovative updates, the implementation of modern technologies, and diversification processes across the entire economy.

According to Ostonakulov, zones serve as unique “economic experimental grounds” where service sector enterprises and small business entities have the opportunity to test new management methods, advanced technologies, and market mechanisms. Through this process, they exert a positive influence not only within these zones but also on the development of entrepreneurship in other regions of the country. Furthermore, in Ostonakulov’s approach, free economic zones are interpreted as:

- a locomotive for regional economic growth,
 - a means for modernizing the service sector and small businesses,
 - a platform for creating a competitive environment capable of competing in the global market.
- Thus, free economic zones not only facilitate the modernization of the economy but also alleviate the organizational and economic challenges of small businesses in the service sector, provide a favorable business environment, and expand opportunities for innovative development.

According to the Law of the Republic of Uzbekistan “On Free Economic Zones,” adopted on April 25, 1996, free economic zones are legally defined as “specially designated territories with clearly defined administrative boundaries and a special legal regime, established for attracting domestic and foreign capital, advanced technologies, and management experience in order to accelerate the socio-economic development of the region”. A general analysis of these definitions shows that free economic zones play a significant role for small businesses and the service sector in:

- solving organizational and economic problems,
- increasing investment attractiveness,
- creating a competitive environment,
- developing innovative services.

Therefore, the effective use of free economic zones in the development of small businesses in the service sector is considered an important strategic direction. After Uzbekistan gained independence, free economic zones (FEZs) were established based on the new principles of economic development. Such zones became a key component of the state policy aimed at

¹¹ Raimjonova M.A. O„zbekistonda erkin iqtisodiy hududlarga investitsiyalarni jalb qilish: nazariy asoslari, hozirgi holati va istiqbollari. – T.: “Extremum-press” nashriyoti, 2013. – B. 11

¹² Ostonokulov A.A. Erkin iqtisodiy zonalarida buxgalteriya hisobi va auditni takomillashtirish. Diss. i.f.n. – Toshkent: 2017. – B. 18.

modernization, enhancing industrial competitiveness, and creating new jobs. The main directions of the state's economic policy - improving the investment climate, attracting foreign capital, and providing broad opportunities for domestic producers—are effectively supported by FEZs, which serve as an efficient platform in these areas.

The legal foundations of free economic zones (FEZs) are established by the Law of the Republic of Uzbekistan “On Free Economic Zones,” adopted on April 25, 1996¹³, and Presidential Decree No. PF - 4853, issued on October 26, 2016.¹⁴ These documents legally regulate investment activities in FEZs, the application of tax and customs privileges, and the procedures for attracting modern technologies. Uzbekistan's experience shows that free economic zones attract not only financial but also technological and intellectual resources to the national economy. This is directly linked to one of the priority objectives defined in state policy achieving innovative development and diversifying the economy. In this respect, FEZs enhance the country's active participation in international economic relations and open new horizons for cooperation.¹⁵

Another important aspect of the economic policy pursued in the country is reducing interregional disparities and ensuring the efficient use of local resources. Free economic zones play a special role in this regard, contributing to balanced socio-economic development across regions. Tax, customs, and administrative incentives created by the state further enhance the attractiveness of the investment environment and strengthen the role of FEZs in the national economy.

In conclusion, free economic zones serve as an effective mechanism for the rapid development of Uzbekistan's economy, supporting small businesses in the service sector, improving the investment climate, and attracting modern technologies. In this way, they occupy an important place in the country's long-term development strategy and represent a practical manifestation of economic reforms carried out in accordance with the state policy principle of “economic growth for the benefit of the people.”

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¹³ O'zbekiston Respublikasining “Erkin iqtisodiy zonalar to'g'risida”gi Qonuni. – T.: 1996-yil 25-aprel, 1-modda

¹⁴ <https://lex.uz/docs/-3056978>

¹⁵ Xujamkulov D.Y. Erkin iqtisodiy hududlar. Darslik. –T.: IQTISODIYOT, 2019. – 408 b.

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 14. <https://lex.uz/docs/-3056978>.