IMPLEMENTION OF DIGITAL TRANSFORMATION IN THE STATE OF DEVELOPMENT AND EFFECTIVE FUNCTIONING OF SPECIAL ECONOMIC ZONES AS A NEW MODEL OF BUSINESS SECTORS

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Abstract: Both Special Economic Zones (SEZs) and digital transformation have been successfully used as an industrial policy tool in many countries. Today the new era to sustainability requires environmental, social, economic success of any country. Efforts to create SEZs in the world began in 1950s, and were stepped up through the establishment of a free economic zones to attract foreign investments in industrialized countries. A number of state-run zones are now in existence. Little is known, however, about how successful they have been. This paper aims to help fill this gap by exploring the role of state-owned SEZs and utilizing digitalization for achieving new sustainable business in Uzbekistan.

Keywords: special economic zones, developing economies, zone policy objectives, free trade zones, direct investment, digital transformation

Introduction

The concept of special economic zones (SEZs) in their current form dates back to the 1950s, when they were popularly referred to as export processing zones (EPZs), and later as free zones. Despite a proliferation of terminologies, the principle of the SEZ remains essentially unchanged. An SEZ is a geographically defined and delimited space that has a series of location-specific advantages. Their characteristics are distinct from those available to economic actors located in the surrounding national or sub-national economy in which the SEZ is established. To varying degrees the difference in location-specific characteristics within the SEZ's perimeter and outside it are of three types. First, they offer relief from customs duties and tax. Second, they offer superior infrastructure, and/or privileged access to scarce inputs. Third, they have historically offered reduced regulatory requirements, along with improved facilitation of compliance with these regulations through streamlined administrative procedures. [1]

Special economic zones are widely used in most developing and many developed economies. In these geographically delimited areas, governments facilitate industrial activity through fiscal and regulatory incentives and infrastructure support. There are some 5,400 zones across 147 economies today, up from about 4,000 five years ago, and more than 500 new SEZs are in the pipeline. The SEZ boom is part of a new wave

of industrial policies and a response to increasing competition for internationally mobile investment. Today the use of technology is necessary and requiring aspect of each system. Implementation of digital tools in SEZs is another new and successful step in economy system.

Most zones offer fiscal incentives, relief from customs duties and tariffs; business-friendly regulations with respect to land access, permits and licenses or employment rules; and administrative streamlining and facilitation. Infrastructure support is another important feature, especially in developing countries where basic infrastructure for business outside these zones can be poor. [2]

Uzbekistan has the following factors and opportunities to attract foreign investment: large reserves of minerals and fuel and energy resources, agricultural potential, scientific potential, modern market infrastructure institutions, a wide network of commercial banks, a reliable telecommunications network, tourism development opportunities, etc. A free economic zone is a specially designated area in Uzbekistan with clearly defined administrative boundaries and a separate legal order, created to attract domestic and foreign capital, advanced technology and management experience for the rapid socioeconomic development of the regions. [3]

Special economic zones have been unable to improve the infrastructure, human capital and institutional framework of the economy as a whole and have been constrained by priorities that conflict with economic consideration. It was a useful tool for developing countries. By upgrading these resources and features within a confined area of, policy makers can overcome resource availability bottlenecks and reduce the cost of major national or local upgrades. Apart from the "planned" economic benefits expected from the SEZ, a successful SEZ is one in which the country is "open to the business", especially with respect to first-world infrastructure and bureaucratic and administrative efficiencies around the world.

The purpose of creating free economic zones in the Republic of Uzbekistan may be the creation of conditions for the rapid growth of the economy of a particular territory or industry, diversification of economic sectors, the introduction of new technologies and scientific and technological progress through the large-scale attraction of domestic and foreign investments aimed at creating modern export-oriented and import-substituting industrial production and technical innovation complexes. In this regard, it is necessary to consider the existing potential and prerequisites of the Republic of Uzbekistan for further assessment of the prospects for the creation of free economic zones on the territory of the Republic. [4]

According to the head of state Sh. Mirziyoyev, “the consistent increase in investment, the commissioning of modern production facilities are a decisive factor in the development of the country's economy, the creation of new jobs, the implementation of important social programs, and the most important thing is to further increase the level and quality of life of the population.”[5] In addition, at the initiative of President Sh. Mirziyoyev, the State Program for the implementation of the Action Strategy in five priority areas of development of the Republic of Uzbekistan in 2017-2021 was adopted, which will take the country's economy to a new level. The third priority direction of this strategy concerning the development and liberalization of the economy, in particular, is the further strengthening of macroeconomic stability and

maintaining high economic growth rates, increasing its competitiveness, further strengthening the protection of rights and the priority role of private property, stimulating the development of small businesses and comprehensive and balanced socio-economic development of regions, districts and cities, the active involvement of foreign investment in economic sectors and regions of the country by improving the investment climate.

Literature review

If defining the exact parameters of SEZs is difficult, distinguishing between different types of SEZs can be similarly complex. Most SEZs derive from the concept of free zones (also called free trade zones or commercial free zones), the defining characteristic of which is a separate customs area. Free zones tend to be located next to seaports, airports or border corridors, hosting mostly firms that provide warehousing, logistics and services. In most developed economies, the free zone model has remained close to this original concept. Often, such zones have adjacent industrial parks for businesses that rely on these services and on easy access to international markets, but these adjacent areas generally do not fall under a distinct regulatory regime themselves. In developing countries, in contrast, most SEZs are meant to attract investment in diversified industrial activity and therefore tend to provide customs, fiscal and regulatory benefits to all businesses in larger, integrated industrial free zones.

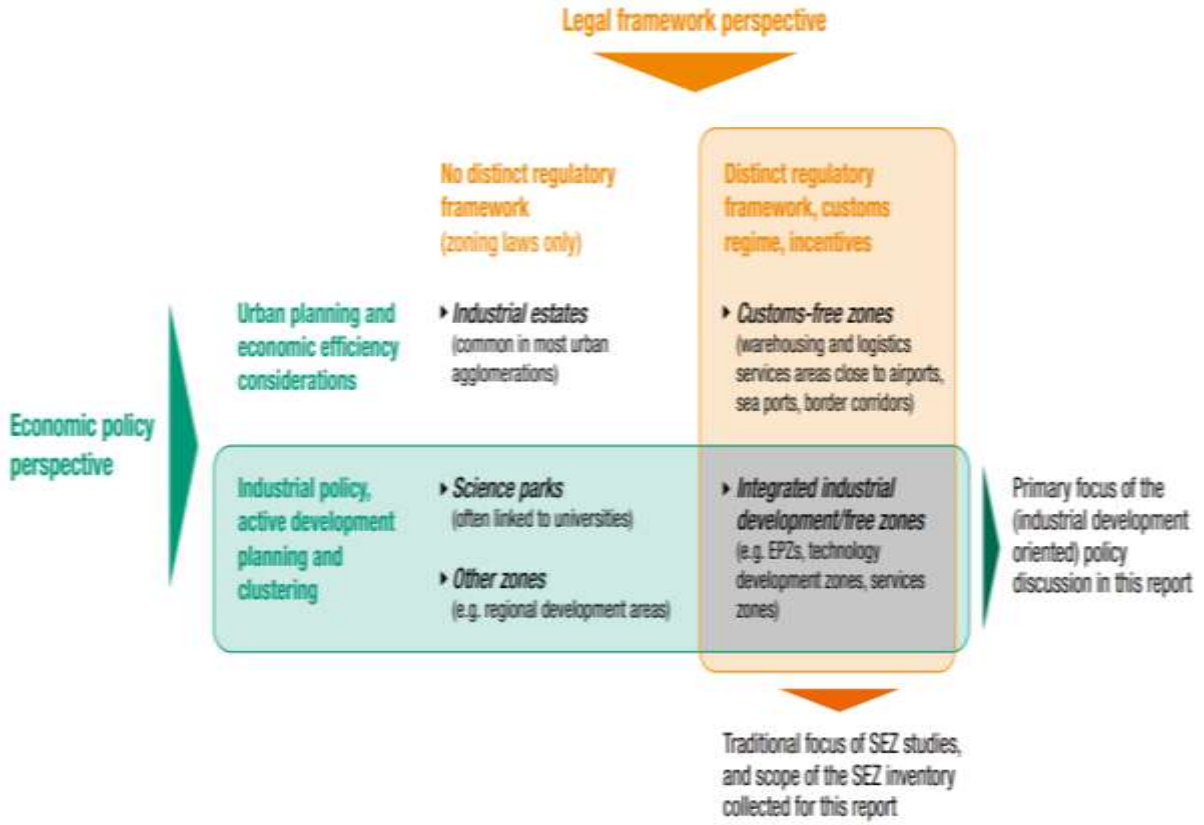

Figure 1. SEZ scope and definitions: a matrix combining two perspectives.
Source: UNCTAD.

From a development perspective, as well as an investment policy perspective, zones that are established as an integral part of industrial policy with active clustering efforts (i.e. the bottom half of the matrix) are the more relevant. Although free trade

zones (FTZs), which mostly focus on logistics and warehousing services, are important – especially in developed countries – most existing and planned zones in the developing world are integrated free zones that aim to attract investment in industrial activity. Many zones that do not have a distinct regulatory regime are established with clear industrial development objectives in mind. Government authorities, often at the subnational level, as well as semi-public and private institutions, have brought enormous innovations to the concept of zones, building specialized zones for science, start-up incubation, R&D, biotech, greentech and many other purposes. Such zones can certainly be valid policy options and alternatives to SEZs. Although it is impossible to provide an exhaustive catalogue of these zones – national governments often do not keep statistics on initiatives of this kind – this report includes them in the policy discussion where relevant. [6]

There are many types of SEZs. Basic free zones focused on facilitating trade logistics are most common in developed countries. Developing economies tend to employ integrated zones aimed at industrial development, which can be multi-industry, specialized or focused on developing innovation capabilities. The degree and type of specialization is closely linked to countries' level of industrialization, following an SEZ development ladder (table 1).

The SEZ development ladder		
	Zone policy objectives	**Prevalent zone types**
High-income economies	• Provide an effi cient platform for complex cross-border supply chains • Focus on avoiding distortions in the economy	• Logistics hubs free zones only (not industrial free zones) • Innovation and new industrial revolution objectives pursued through science parks without separate regulatory framework, or though incentives not linked to zones
Upper-middleincome economies	• Support transition to services economy •Attract new high-tech industries • Focus on upgrading innovation capabilities	• Technology-based zones (e.g. R&D, high-tech, biotech) • Specialized zones aimed at high value added industries or value chain segments • Services zones (e.g. fi nancial services)
Middle-income economies	• Support industrial upgrading • Promote GVC integration and upgrading •Focus on technology dissemination and spillovers	• Specialized zones focused on GVC-intense industries (e.g. automotive, electronics) • Services zones (e.g. business process outsourcing, call centres)

Low-income economies	• Stimulate industrial development and diversifi cation • Offset weaknesses in investment climate • Implement or pilot business reforms in a limited area • Concentrate investment in infrastructure in a limited area • Focus on direct employment and export benefi ts	• Multi-activity zones • Resource-based zones aimed at attracting processing industries

Source: UNCTAD

Since the late 1980s, the digital revolution has transformed the economy and society. First came the development of a connected economy, characterized by mass take-up of the Internet and the roll-out of broadband networks. This was followed by the development of a digital economy via the increasing use of digital platforms as business models for the supply of goods and services. Now the movement is towards a digitalized economy whose production and consumption models are based on the incorporation of digital technologies in all economic, social and environmental dimensions.

Discussion

The expansion of the industrial Internet, smart systems, virtual value chains and artificial intelligence in production processes is speeding up innovation and generating productivity gains, with positive effects on economic growth. In addition, all this is driving the transformation of traditional industries through automotive technology (autotech), agricultural technology (agritech) and financial technology (fintech), among others. In particular, smart production models can bring increased competitiveness with a smaller environmental footprint, as companies are using digital tools to map and reduce their footprint in order to assess their impact on climate change and modify their production processes. [10]

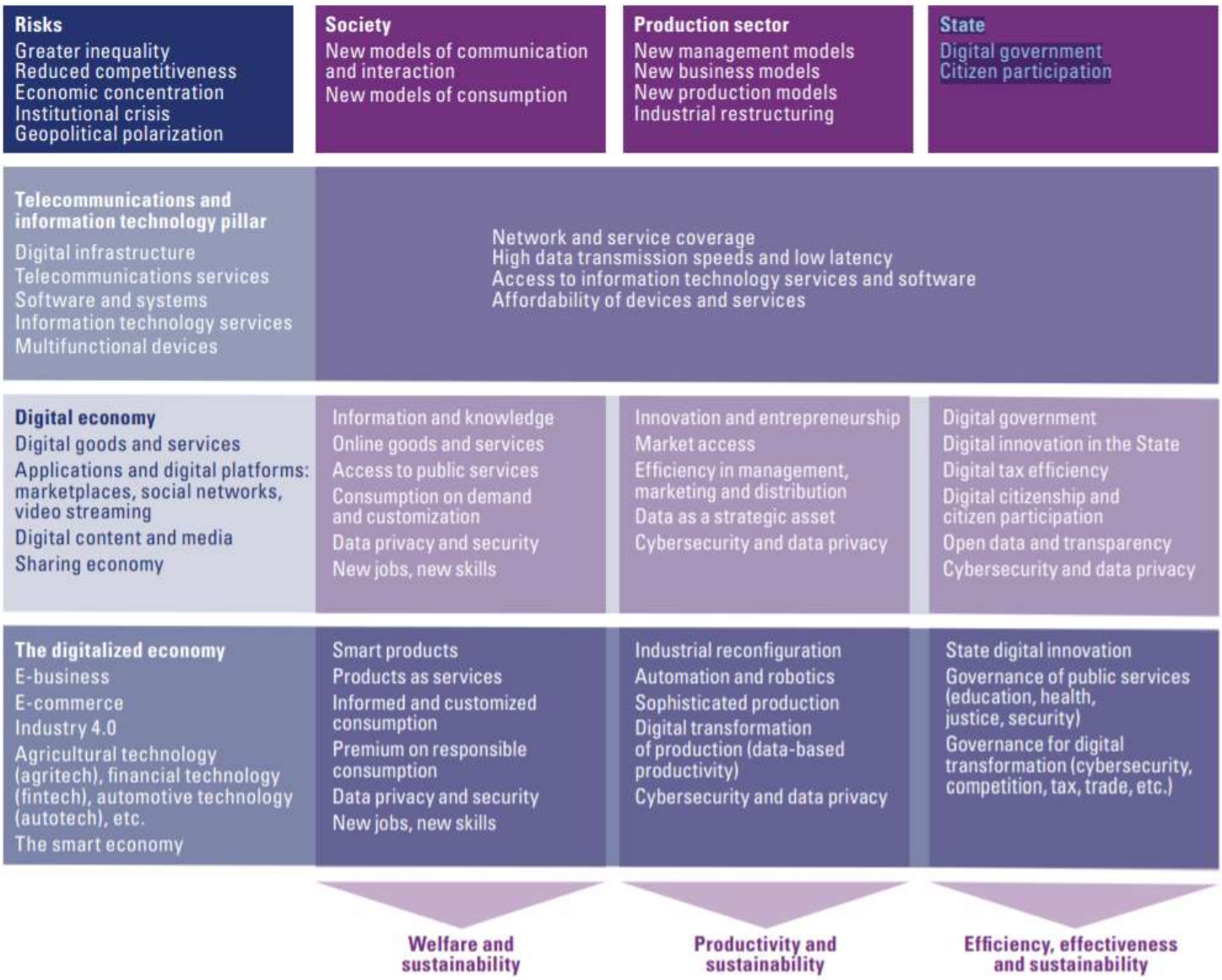

Figure 2. Dimensions of digital development and the effects on society, the production sector and the State

Source: Economic Commission for Latin America and the Caribbean (ECLAC)

This study aims to offer the use of the fifth generation of mobile networks to provide ultra-reliable low latency (less than a millisecond), increased network security, massive machine type communications and enhanced device energy efficiency. The roll-out of these networks will make it possible to extend wireless broadband services beyond the mobile Internet to complex Internet of things systems, with the low latency and high level of reliability needed to support critical applications in all economic sectors. [11]

The 5G network enables the construction of intelligent factories and the use of technologies such as automation and robotics, artificial intelligence, augmented reality, and the Internet of Things at various stages of the value chain (Figure I.6). See). Real-time access to information for decision-making along the entire value chain is a decisive competitive advantage in that resources are used efficiently and requirements are better met. Cloud-based solutions allow you to better integrate different stages of your chain. The same software can be used to design, simulate, and implement

configurations and instructions for the operation of physical production lines, improving operational quality and flexibility. This type of solution replaces the traditional assembly process and provides the flexibility to reconfigure production lines as products and demand change.

Today Uzbekistan has more than 20 SEZs dividing into four groups based on their scope of activities. These are industry, pharmaceuticals, agriculture and tourism. In the pharmaceutical industry there are 8 FEZ located in Surkhandarya, Tashkent, Namangan, Jizzakh, Syrdarya, Andijan and Republic of Karakalpakstan.

Currently, a total of 69 investment projects have been implemented in the territories of the SEZ for a total of $ 512.4 million, including with the participation of foreign direct investment in the amount of $ 290.7 million. As a result, 4,719 jobs have been created. In 2017, the participants of the FEZ produced goods to the amount of 1.76 trillion. soums with an increase of 29.4% compared with the previous year, including those exported - $ 42.8 million (an increase of 10.9%). At the same time, the forecast parameters for production and export were fulfilled by 89.2% and 60.6%, respectively. To date, 244 projects have been launched with a total value of $ 1.527 billion (including foreign investment - $ 413.9 million). As a result of project implementation, it is planned to create 21,663 new jobs.

Conclusion

In many countries, the SEZ are utilized as a proving ground for working out the components and instruments of financial arrangement, which then, at that point, spread to the remainder of the country. Moreover, free financial zones are utilized to work with the entrance of unfamiliar organizations to the market of Uzbekistan and through it to the business sectors of adjoining nations. Accordingly, the commodity direction of the country's economy is invigorated, there is a functioning exchange of advancements and experience of organizations in the global market, expanding the seriousness of the economy and everyday environments of the populace.

The use of 5G network and other technological tools into SEZ will enhance successful transformation of product chain. In production of goods in free economic zones the following steps should be accomplish for achieving high efficiency.

- Process automation
- Plant digitalization Input/output monitoring
- Predictive analysis (demand, production capacity)
- Business-to-business platforms
- Component printing (replacement of steel)
- Traceability of the renewable origin of electricity generation
- Compliance with regulatory aspects of sustainability
- Resource exploitation including geolocation, meteorological information system, smart management
- Innovation and design with fast prototyping, business-to consumer platforms
- Distribution including smart inventory management, online channels, digital logistics solutions
- Consumption of digital goods.

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