



DEVELOPMENT OF THE INVESTMENT ENVIRONMENT THROUGH INSTITUTIONAL ADAPTATION TO INTERNATIONAL ORGANIZATIONS: MAIN ASPECTS AND PROBLEMS

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Abstract. *In the context of the country's accession to international organizations, including the World Trade Organization (WTO), the article examines various aspects of the activity of special economic zones, which are considered institutional infrastructures for the development of the investment environment. As we know, WTO is a major international organization. Countries that are members of this international financial and economic structure must fully comply with the norms in the trade and economic sphere established by this organization. In particular, the rules for setting customs tariffs for imported goods, and various measures limiting healthy competition describe the rules adopted by this organization. In this regard, the influence and consequences of the country's WTO membership on the investment environment and investment mobility in special economic zones have been analyzed. Uzbekistan is also taking certain measures to become a member of the WTO. The article examines the fact that several practical works have been carried out on integrating trade-economic criteria into the country's rules. Also, proposals and recommendations were developed based on foreign experiences, problems, and possibilities of harmonizing the rules adopted in the WTO.*

Keywords: *special economic zone, World Trade Organization, customs preferences, tax incentives, investment*

environment, economic growth, infrastructure

Introduction. The ongoing processes of globalization in the world economy highlight the increasing importance of liberalizing foreign trade as a central trend in the development and integration of the global economy. To enhance the attractiveness of the investment environment and facilitate investment mobility, countries worldwide are implementing measures such as reducing customs duties and eliminating various business restrictions. However, it's noteworthy that many countries employ covert protectionist measures, including subsidies to national producers, export subsidies, the introduction of various norms and standards, among others. International economic organizations, with the World Trade Organization (WTO) at the forefront, play a crucial role in addressing conflicts between free trade and protectionism, managing international trade, removing barriers to development, and promoting liberalization.

Uzbekistan, like other developing countries, extensively utilizes various institutional infrastructures to enhance the investment environment. Particularly noteworthy in this regard is the role of special economic zones. Presently, Uzbekistan boasts more than 20 special economic zones. From 2008 to 2022, a total of 604 investment



projects were implemented in these zones, attracting investments totaling 3.2 billion dollars. Notably, foreign direct investments accounted for 896.9 million dollars of the total investment volume. These projects resulted in the creation of approximately 55 000 new jobs. Continuous efforts are being made to further improve the investment environment in these zones. However, evaluating the impact of international organizations, including Uzbekistan's WTO membership, on the investment climate in these regions is crucial for informed decision-making. This evaluation is particularly pertinent because the primary allure of these regions lies in the financial benefits they offer. Yet, the WTO does not readily endorse concessions. Therefore, it is vital to assess how the membership of this international structure positively or negatively affects the investment climate in special economic zones.

Material and Method. The impact of Uzbekistan's WTO membership on the investment environment is a focal point of discussions among researchers. Notably, N.A. Zufarova asserts that "the period during which Uzbekistan is not bound by all WTO requirements should be maximally utilized for the structural restructuring of the economy and the establishment of export-oriented productions." However, the success of these efforts hinges on avoiding conflicts with the international trading system. While the delay of certain agreements may be permissible, their failure is not an option [6].

Economist N.H. Jumaev emphasizes, "WTO membership entails an obligation to adhere to accepted world trade legislation, facilitating the country's access to benefits in foreign markets. It also signifies a commitment to sound policies and good governance, rendering foreign direct and domestic investment more appealing [2]".

A.A. Ilyasov highlights potential advantages for Uzbekistan, including economic growth, the development of market mechanisms, a strengthened competitive environment for investments, increased production and export, scientific and technical development, reduced corruption levels, the establishment of new industries and jobs, and enhanced competitiveness on the international stage [3].

However, according to H.P. Abulqasimov, negative consequences may arise from joining the WTO and EOII. These potential dangers include an increased threat to the country's economic security due to the openness of the national economy, risks to the stable development of certain industries, heightened vulnerability to external shocks leading to fluctuations in the world market affecting the republic's balance of payments, potential decreases in competitiveness in some key branches of the industrial network due to the import of similar products at relatively low prices (commodity intervention), and a potential initial decrease in the revenue part of the state budget resulting from the reduction of customs tariffs and duties compelled by WTO and EOII member countries during negotiations [4].

Results. The main objectives of the World Trade Organization (WTO) encompass:

- Development of universal rules for international trade.
- Reduction of restrictions on the movement of goods and services.
- Equalization of competition.

Multilateral negotiations and consultations on Uzbekistan's WTO membership have been ongoing for more than 20 years, starting in 1996.

In the decision No. 1040 of the Cabinet of Ministers of the Republic of Uzbekistan dated December 24, 2018 "On



approval of the composition of the Inter-Departmental Commission on Work with the WTO" the Inter-Departmental Commission on Work with the WTO was approved in order to ensure effective organization and systematic coordination of the preparatory phase of the process of the Republic of Uzbekistan's entry into the WTO [1].

The objectives of establishing special economic zones depend on the socio-economic conditions of a country's development. In developed market economies, such zones are typically created in areas with high unemployment and underdeveloped infrastructure. These zones aim to encourage the development of existing productions integrated into the domestic market and create new jobs. In newly industrialized Asian countries, zonal policy creates sectoral enclaves of economic growth, primarily focused on exports and scientific and technical development. Developing countries, with a low level of economic development, establish special economic zones to attract foreign investments, advanced technologies, and management, stimulate exports, improve employment, train qualified personnel, and utilize land rent.

The question arises: will the WTO be an obstacle to the development of special economic zones in our country? According to WTO requirements, its rules should apply to the entire territory without exception, including special economic zones with a special regime of taxation, regulation, and applicable tariffs. Therefore, understanding the impact of WTO membership on the development of the investment environment in special economic zones is crucial. To explore this impact, the experience of developing countries with a significant share in Uzbekistan's foreign trade and investment turnover, particularly the Russian Federation,

was studied. Currently, Russia has completed bilateral negotiations on WTO membership with 60 partner countries. However, fundamental positions, such as export duty rates for agriculture and timber, remain unresolved. The main task is to create conditions for membership that improve the country's access to world markets without violating its rights in international trade.

These factors will be effective with a comprehensive approach to improving the investment environment. Main directions of work include reducing inflation, ensuring the free conversion of the national currency, lowering administrative barriers, reducing the tax burden, regulating the legal framework for subsoil use, and accepting foreign investors in strategic areas.

While the Russian Federation is acknowledged as a country with a market economy, challenges persist in the operation of special economic zones. Although there are no explicit norms directly prohibiting the existence of special economic (customs) zones in the legal framework of the World Trade Organization (WTO), member countries are obliged to align their national legislation with the rules and regulations of this international organization. Notably, countries like China and Cambodia, which operate such zones, have joined the WTO and subsequently mandated that goods produced within these zones undergo standard customs clearance procedures when exported to the broader country.

Simultaneously, global practice indicates that the presence of special economic zones in a country is not a significant impediment to negotiations with the World Trade Organization (WTO). This is because these regions were established prior to joining the WTO. Special economic zones also existed in WTO member countries such as the USA, Belgium, and Poland. In a similar vein, China advocated for the



preservation of its existing special economic zones upon joining the WTO.

In contemporary international economic practices, special economic zones are commonly interpreted as areas where foreign economic activity is promoted through the implementation of a duty-free regime and other economic and organizational regulations. According to the Kyoto Convention on the Simplification and Harmonization of Customs Procedures, in international legal practice, a "special or free economic zone" designates a part of a state's territory where any imported goods are considered objects outside the customs territory.

Russia's accession to the WTO is likely to have a positive impact on developed regions such as the Central or North-West. However, the concept of special zones may potentially clash with WTO rules on industrial subsidies. Until there is a clear delineation of which sectors of the Russian industry can be stimulated by the establishment of special economic zones, WTO representatives may not fully consider this mechanism to support certain sectors that were not previously accounted for in negotiations.

The prototype of WTO conditions for the Russian Federation is reflected in the special economic zones in the Kaliningrad region. This region stands out as the sole subject of the Russian Federation entirely separated from the rest of the country by the borders of foreign countries and international sea waters. As part of Russia, the special economic zones in the Kaliningrad region may adversely affect the investment environment, including global railway tariff rates for the transit of goods. The challenging situation in the regional economy could be more severe than the economic risks experienced across the entire country. Consequently, special economic zones play a

crucial role in the entire region to offset the costs associated with its enclave status. Consequently, the region's economy has increasingly become a specialist in net import substitution in recent years. In this context, new business structures typically emerge only within the special economic zone framework, as there are few other advantages in the region. Most enterprises in Kaliningrad lack competitiveness compared to similar Russian manufacturers.

How the inevitable trade liberalization throughout the Russian Federation will affect the region's economy during WTO accession and how fully the status of the Kaliningrad region will be preserved during the negotiations is an issue that requires detailed study. Now, regional enterprises have a number of benefits and privileges that provide a certain level of competitiveness in comparison with other companies operating in Russia. This, according to a number of experts, may have a negative impact on the region's situation and cause the region to lag behind Russia's average level of economic development [5].

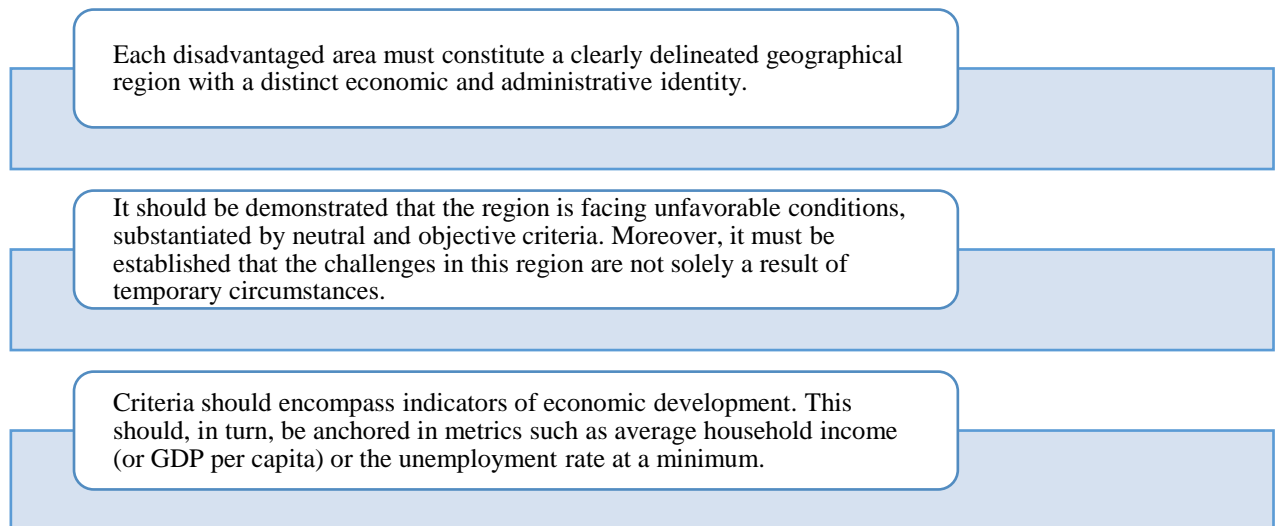
As previously mentioned, the cornerstone of the Kaliningrad region's economy is the special economic zone regime. Effectively, it constitutes a system of customs preferences for economic entities operating in the region. Goods manufactured within the special economic zone and subsequently imported into the broader customs territory of the Russian Federation benefit from exemption from import customs duties and other charges incurred during customs clearance. Furthermore, these goods are not subject to economic policy measures. The administration of the special economic zone, in collaboration with the government of the Russian Federation, retains the authority to impose additional restrictions on the free customs zone regime and exceptions to this system, with the aim of safeguarding local

producers of goods (works, services). Additionally, value-added tax is not applied to revenues generated from the transportation of goods from the special economic zone to the rest of the customs territory of the Russian Federation, as well as to the provision of transport services during reshipping, loading, unloading, reloading, and storage services.

The enumerated benefits, in essence, deviate from the fundamental principle of the World Trade Organization (WTO) - the application of the most-favored-nation treatment by its members. This deviation can be construed as discriminatory towards the rights of other members within the organization. Unlike the practices of special economic zones in the aforementioned WTO member countries, such as Poland, Lithuania, and Latvia, the enclave principle within the customs territory mandates that goods produced in the special economic zone undergo normal customs clearance, including the imposition of tariffs and taxes, when exported to the country's territory. Consequently, the Russian Federation,

assuming relevant obligations through WTO membership, faces the risk of fundamentally altering the operational mechanism of the special economic zone in the Kaliningrad region or even its potential cancellation. The revocation of privileges is anticipated to have a significantly adverse impact on the investment appeal of the special economic zone.

Nevertheless, WTO rules, under specific circumstances, permit deviations from the "most-favored-nation" principle. Typically, countries seeking WTO membership delineate special conditions that can be extended to specific parts of their territory. Notably, the agreement on subsidies and compensation measures outlines a "legal" support procedure for socio-economically disadvantaged areas. State subsidies may be granted to such areas within a member state's territory as a form of non-specific aid within the overarching framework of regional development and confined to the borders of the respective regions.



Picture 1. Criteria for exemptions to privileges in specific special economic zones during the WTO membership process ¹

Undoubtedly, the alignment of customs tariffs with WTO standards and the

general reduction of import customs payments in the Russian Federation may

¹ Created by the author.



precipitate a catastrophic decline in the profitability of the import-substituting sector. The heightened costs of transportation under these new conditions could render its products non-competitive in the domestic market. A potential solution to this challenge is to proactively explore new business avenues focused on the production of export-oriented goods. Simultaneously, there is a pressing need, as evidenced by global practices of special economic zones under the WTO, to establish a "special" agreement between the country and WTO member states specifically addressing special economic zones in certain regions of the country. This approach, akin to the "Shannon" special economic zone, can provide a strategic framework for navigating these complexities.

Discussion. Many sources suggest that, despite its advantages, the World Trade Organization (WTO) has some perceived disadvantages. In response to these criticisms, international expert Jovan Yekich has addressed several misconceptions. One common notion pertains to the automatic reduction of import tariffs after joining the organization. Yekich clarifies that such reductions are not universally applied to all goods. Given the vast array of 11295 goods in the nomenclature of foreign economic activity in the Republic of Uzbekistan, separate negotiations are conducted for each item. The objective is to discern an effective balance, recognizing that certain goods may not be adversely affected by duty rate reductions. Yekich also emphasizes that subsidies for agricultural products are not prohibited by the WTO but must adhere to agreed-upon limits during the membership process. Contrary to the belief that the rights

of small countries are inferior to those of larger nations, Yekich notes that each country, regardless of size, holds an equal vote, and decisions are reached through consensus. If a decision is not in a country's interest, it reserves the right to reject it, as observed in the organization's history. Furthermore, Yekich underscores the WTO's developmental program designed to assist less developed and developing countries. The organization aims to protect the interests of all member nations. The primary objective of the WTO is to facilitate free trade among member countries, fostering a fair competitive environment in the trade of goods. For Uzbekistan, the foremost goal of WTO membership is to enhance the competitiveness of domestically produced products in comparison to imported goods exempt from tariff and non-tariff barriers. Engaging in mutual competition in the production and sale of goods encourages Uzbekistan to advance by adopting innovative production technologies from around the world. The process of Uzbekistan's WTO membership commenced in December 1994, marking the Republic's application to become a full member of the organization.

The analysis reveals that a significant portion of the customs-related documents in our country during the past period leading up to its accession to the World Trade Organization (WTO) has been harmonized with the requirements of the WTO agreements.

When considering the advantages and disadvantages of Uzbekistan's accession to the WTO, it is pertinent to conduct a SWOT analysis to comprehensively evaluate the situation:

SWOT analysis results of the advantages and disadvantages of Uzbekistan's accession to the World Trade Organization²

<p>Strengths</p> <ol style="list-style-type: none"> 1) Cheap labor positively influences product pricing 2) Presence of a stable political environment 3) Overall stability in macro-economic factors. 	<p>Weaknesses</p> <ol style="list-style-type: none"> 1) The national currency exhibits fluctuations compared to foreign currencies. 2) A notable inflationary trend. 3) Domestic producers face challenges in competitiveness. 4) Obligation to export through a third country.
<p>Opportunities</p> <ol style="list-style-type: none"> 1) Opening equal opportunities to enter the markets of all WTO member countries; 2) Ensuring an increased flow of investments; 3) Enhancement of competitiveness, preventing monopoly.; 4) Safeguarding the rights of exporters in foreign trade; 5) Development of national standards in line with international norms, aiding exporters to meet foreign market requirements; 6) Right to participate in the decision-making process of global trade policy; 	<p>Threats</p> <ol style="list-style-type: none"> 1) Surge in imports potentially negatively impacting the national economy; 2) Risk of losing market share for domestic producers; 3) Sharp rise in national currency inflation owing to foreign trade conducted in foreign currency; 4) Import-substitute producers may face financial crises; 5) Disruption in general control over economic security;

What will be the expected result for Uzbekistan? Of course, the effectiveness of each work depends closely on the conditions created in that country and environment and the level of preparation. For this:

- liberalization of the economy and regulation of the balanced development of industrial sectors;
- Price Regulation and Creation of an Acceptable Tax System;
- Maintenance of Subsidies in Certain Sectors and Production;
- Regulation of the System of Standardization and Certification of Goods;
- Increasing Investment Attractiveness for Foreign Investments;
- Regulation of import and export duty payment tariff is required.

Conclusion. Currently, to streamline the remaining customs-related documents in our nation, the foremost imperative is to align the regulatory legal framework with the

specifications outlined in the WTO agreements. This involves:

- Enhancing the expeditious processing of customs clearance for goods and advancing the utilization of customs audit to guarantee comprehensive adherence to customs legislation and other regulatory frameworks after goods are released into free circulation.
- Coordinating customs clearance fees for both the export and import of goods.
- Introducing a preliminary decision-making mechanism to streamline decision processes.
- Improving the mechanism for mutual information exchange among customs authorities of different states.
- Advancing the development of digital customs to diminish the time expended on customs clearance procedures.
- Incorporating international standard requirements in the implementation

² Compiled as a result of research by the author.



of technical specifications for goods. Uzbekistan's membership in the WTO unfolds extensive possibilities for the future of foreign trade and holds particular significance in the integration of our nation's economy into the global economic landscape. Simultaneously, it

underscores the essential need for a systematic implementation of reforms focused on enhancing the competitiveness of national economic sectors. This encompasses bringing about legislative changes in areas such as taxation, customs, and technical standardization.

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