

## Opportunities for establishment of transborder free economic zones in Central Asia

Oportunidades para el establecimiento de zonas económicas libres transfronterizas en Asia Central

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### ABSTRACT

This article explores the possibility of establishing trans-border free economic zones in cooperation with Central Asian countries bordering on Uzbekistan. According to the study, the transborder free economic zones between Uzbekistan, Kazakhstan, Uzbekistan, Turkmenistan and Uzbekistan are useful for the Uzbek economy. The role and place of Central Asian countries in the world economy is on the rise. Nevertheless, the non-improvement of trade and economic relations between the countries of the region with the countries of Central Asia is a matter of urgency. In this regard, the article analyses the potential for improving trade and economic relations in the region through the establishment of cross-border free economic zones. Creating a trade and transit zone in our country will create a complex, which includes a logistics center, which will include road and rail transport, provide safe and fast shipping of goods through the transit zone, and the establishment of warehouses and wholesale stores. The purpose of the article is to develop alternative options for establishing cross-border free economic zones at the border crossings of countries bordering Central Asia, particularly Uzbekistan.

**Keywords:** Uzbekistan, Central Asia, Transborder Free Economic Zone, Economic Integration, Free Economic Zone

### RESUMEN

Este artículo explora la posibilidad de establecer zonas económicas libres transfronterizas en cooperación con los países de Asia Central que limitan con Uzbekistán. Según el estudio, las zonas económicas libres transfronterizas entre Uzbekistán, Kazajstán, Uzbekistán, Turkmenistán y Uzbekistán son útiles para la economía uzbeka. El papel y el lugar de los países de Asia Central en la economía mundial está en aumento. Sin embargo, la no mejora de las relaciones comerciales y económicas entre los países de la región con los países de Asia Central es urgente. En este sentido, el artículo analiza el potencial para mejorar las relaciones comerciales y económicas en la región mediante el establecimiento de zonas económicas libres transfronterizas. La creación de una zona comercial y de tránsito en nuestro país creará un complejo, que incluye un centro logístico, que incluirá el transporte por carretera y ferrocarril, proporcionará envíos seguros y rápidos de mercancías a través de la zona de tránsito, y el establecimiento de almacenes y tiendas mayoristas. El propósito del artículo es desarrollar opciones alternativas para establecer zonas económicas libres transfronterizas en los cruces fronterizos de países fronterizos con Asia Central, particularmente Uzbekistán.

**Palabras clave:** Uzbekistán, Asia Central, Zona Económica Libre Transfronteriza, Integración Económica, Zona Económica Libre

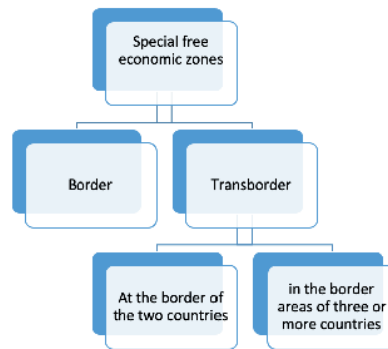
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## Introduction

Transborder free economic zones are regional structures that play an essential role in international trade, economic and political and economic integration processes. Typically, such areas are located on the border or adjacent territories of two or more countries and represent the logical signs of economic integration and the creation of free economic zones.



**Figure 1. Some types of special FEZs**

### Image author development

Such areas will be created to cooperate in trade, production, tourism and transport between countries that may or may not operate under the single economic integration block.

In the world economy, such free economic zones are useful in the experience of China, Northern Europe and East Asia.

## LITERATURE REVIEW

The role of cross-border free economic zones in improving economic geographical and regional trade and economic relations has been widely and effectively studied by foreign scientists. One of such scientists was G.M. In costume. In his article (Kostyunina&Baronov, 2011) investigated the activities of transborderFEZs on the example of Hexhe, Suffenheim, Manchuria and Hunchun on the Russian-Chinese border. The main problems in the development of these areas are the transport and logistics system and high land rent.

Indeed, the problem of transport and logistics at cross-border FEZs is one of the main issues of all cross-border EEs not only on the China-Russia border but in the world economy.

According to a study by the Thai Mekong Institute (Dutta et al,2018), it is possible to increase transport capacity and develop entrepreneurship by establishing a transborder FEA within the Mekong River Basin countries.

P.V. Pavlov according to a study by (Pavlov, 2006), free economic zones have been proven to be an important element in enhancing Russia's role in international economic integration processes, and, according to the author's typology of free economic zones, transborder free economic zones are also listed as a type of special FEZ.

Many studies and analyzes (Masami, 2009) show that transborderFEZs are not only border areas, but also the similarity of the foreign economic and political objectives of neighboring countries, the level of living within a single group, the size of GDP, and the accessibility of countries to the sea.

## RESEARCH METHODOLOGY

The methods of scientific abstraction, induction, deduction, analysis and synthesis were effectively used during the study. The results obtained through the economic-mathematical methods (Gravitational model) were used to draw general conclusions on the topic of scientific research.

## FOREIGN EXPERIENCE

In the context of globalization, no country can develop in isolation and interdependence.

In particular, Uzbekistan has been pursuing an active foreign economic policy since the first years of independence.

Today Uzbekistan is a country with a relatively high growth rate, playing an important role in the system of international relations and being a member of the international community. His demographic and socio-economic reforms are being studied with great interest among world scientists as new models of development. Secretary of the European Economic Commission A. Vasilevargues that "Uzbekistan is an important country in the Central

Asian region with a well-developed and diversified economy (Gazeta.uz, 2014).

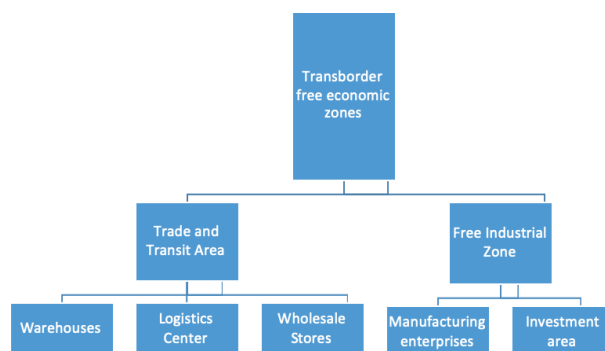
However, limited access to the sea and the diversity of economic and political conditions in neighboring countries, as well as the political situation in Afghanistan, are the major obstacles to foreign trade.

One of the solutions to this problem is the expansion of regional economic relations with Kazakhstan.

According to the authors, four of the major transport corridors in Uzbekistan's foreign trade pass through Kazakhstan, creating a free economic zone (FEZ) in the border areas of Uzbekistan and Kazakhstan, considering the foreign trade issues.

In world practice, transborder FEZs are common in the experience of the People's Republic of China, China, Japan, the Republic of Korea and the European Union, Southeast Asia.

In world practice, such FEZs have been used as the first stage of regional economic integration. The FEZ, despite its varied forms, has allowed to increase trade between countries and to diversify and stimulate production. Looking at the PRC experience, such zones have been established in China since 1992, and currently there are about 90 cross-border economic zones in the country. China's transborder free economic zones are located on the border of Japan and Russia (Hehehe, Suffenhe, Manchuria, Hunchun), the development of mutual trade between neighboring countries (border and territorial trade); diversification of industrial sectors; great opportunities for the development of small and medium-sized businesses (Kostyunina&Baronov,2011).



**Figure 2. Structure of Transborder Area \***

\* Image author development

## ANALYSIS AND RESULTS

**Table 1. 2017 trade turnover between Central Asian countries**

	Uzbekistan	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan
Uzbekistan*	-	1 985 347,4	169 096,08	75 347,55 2	53 177,29
Kazakhstan*	1 985 347,4	-	765 172,0	781 667,4	99 606,0

\* Created by the author on the basis of data from the The Ministry of National Economy of the Republic of Kazakhstan Committee on Statistics and Information of the State Committee of the Republic of Uzbekistan on Statistics.

According to the table, trade turnover between Uzbekistan and Kazakhstan is the highest among Central Asian countries, amounting to almost \$ 2 billion.

Overall, trade between the two countries in 2018 was \$ 2.5 billion, or increased by 25.3 percent compared to 2017, including exports of \$ 1.6 billion, 31.6 percent and imports 0.8 percent, respectively. has grown. billion and increased by 14.8%.

The bulk of exports (38.7%) was for animal and vegetable products, food products (\$ 635.4 million in 2018, \$ 473.9 million in 2017). The increase was 34.1%.

The second most important (30.8%) are metal and metal products (\$ 505.5 million in 2018, \$ 364.3 million in 2017). The increase was 38.8%.

The exports also accounted for 22.5% of mineral products, which amounted to \$ 369.1 million in 2018 (\$ 335.7 million in 2017), an increase of 10%.

The volume of trade between Uzbekistan and Kyrgyzstan is also US \$ 75 million (2018).

However, the trade volume between Kazakhstan and Kyrgyzstan and Tajikistan also exceeds \$ 750 million, which indicates the development of trade and economic relations between the countries of Central Asia.

These positive indicators were the establishment of joint ventures in Central Asia with the participation of Central Asian countries.

In 2017, 50 enterprises with participation of the Uzbek and 16 enterprises with the participation of Tajik capital operated in Kyrgyzstan, and 49 enterprises with the participation of Kyrgyz capital functioned in Uzbekistan (Table 1). Cooperation between industrial enterprises of Uzbekistan and Kyrgyzstan is carried out mainly in the textile sector and the production of building materials. In particular, in April 2018, an Uzbek-Kyrgyz joint industrial enterprise Imzowas opened in Osh to produce metal-plastic windows and doors. The business circles of the two countries plan to deepen industrial cooperation in the textile and clothing-knitting industries, including the organization of joint production and export of finished products to the markets of third countries. Given that Kyrgyzstan has the status of a universal VSP + system of preferences, which gives Kyrgyz producers the right to export about 6,000 commodity items to Europe at zero tariff rates, organizing joint production of finished products and exporting them through Kyrgyzstan would facilitate access to the European market for Uzbek producers .

In 2017, investors from Uzbekistan invested \$ 5.4 million in the Tajik economy. Investments are aimed at the development of agriculture, poultry and horticulture. In Tajikistan, there are 9 enterprises with the participation of Uzbek capital, and in Uzbekistan there are 25 enterprises created with the participation of Tajik capital (Table 1), engaged in light industry, food production, construction materials, and fruit and vegetable processing. In 2017, six trading houses of Uzbekistan opened in Tajikistan; since February 2018, the Trade House of Tajikistan began to function in Tashkent. To facilitate the development of relations between economic entities of Uzbekistan and Tajikistan, the Uzbek-Tajik Business Council was created(Mustafayev, 2018).

**Table 2.** The number of operating enterprises with foreign capital by Central Asian countries (Uzbekistan, Kyrgyzstan, Tajikistan) for 2017, units (Sultanov et al, 2018)

Hostcountry	Uzbekistan	Tajikistan	Kyrgyzstan
Investorcountry			
Uzbekistan		9	50
Tajikistan	25		16
Kyrgyzstan	49	н/д	

In early 2019, two more Uzbek-Tajik joint ventures were created. In particular, Artel in Dushanbe created a joint venture LLC ArtelAvesto Electronics, whose main activity will be the production of household appliances under the Artel brand (Kapital.kz, 2019). Uzagrotechsanoatholding JSC and Orient Invest Investment and Production Company have established OrientUzagro joint production company for the production of agricultural machinery in Tajikistan. The company will manufacture various tractors, in particular loading and for transportation, special equipment. Currently, the Tajik Aluminum Company (TALCO) operates a joint Uzbek-Tajik enterprise TALCO-CRANTAS LLC, engaged in the installation and installation of special communal and construction vehicles (Sultanova,2018).

**Table 3. Countries must agree on:**

Trade (export-import)	Unification of tariffs and non-tariffs applicable to mutual and third countries within this region.
Currencyrelations	Foreign and national currencies used in trade relations and their conversion.
Migration	Legal framework governing the migration of population and labor, the norms and requirements of labor.
Taxesandduties	Agreements on trade and tax rates between the two countries in respect of each other and third countries in respect of goods and services.

Insurance	Development of a unified framework for insurance of international operations, vehicles, goods and other processes.
Support and Development of Venchur Entrepreneurship	Creation of a unified legal basis for the regulation of innovative activities, venture funds and companies, business angels and investment funds within the transborder area.

For Uzbekistan, the possibility of cross-border integration in the Central Asian region is high in the border areas of Uzbekistan and Kazakhstan.

If we analyze the advantages and disadvantages of creating a FEZ between the two countries, the following is an example of the importance of establishing the FEZ in the border areas of Uzbekistan and Kazakhstan.

**Table 4. Dynamics of GDP Change in Uzbekistan and Kazakhstan (2000-2018) \***

Years	GDP of Uzbekistan (billions)	GDP of Kazakhstan (billions)	GDP of Kyrgyzstan (billions)	GDP of Tajikistan (billions)
2000 y.	13,76	18,292	1,37	1,37
2001 y.	11,401	22,153	1,5	1,1
2002 y.	9,998	24,637	1,6	1,2
2003 y.	10,128	30,834	1,9	1,5
2004 y.	12,03	43,152	2,2	2,1
2005 y.	14,308	57,124	2,5	2,3
2006 y.	17,331	81,004	2,8	2,8
2007 y.	22,311	104,85	3,8	3,7
2008 y.	29,549	133,442	5,1	5,1
2009 y.	33,686	115,309	4,7	4,7
2010 y.	39,333	148,047	4,8	4,8
2011 y.	45,915	192,627	6,2	6,5
2012 y.	51,822	207,999	6,8	7,6
2013 y.	57,69	236,635	7,3	7,3
2014 y.	63,067	221,416	7,5	7,5
2015 y.	66,904	184,388	7,5	7,8
2016 y.	67,22	137,278	6,8	6,8
2017 y.	59,2	162,9	7,7	7,2
2018 y.	50,5	170,5	8,1	7,5

\* Created by the author on the basis of data from the World Bank

Model of foreign trade turnover between Uzbekistan and Kazakhstan:

Дисперсионный анализ					
	df	SS	MS	F	Значимость F
Регрессия	2	12,10256482	6,051282409	152,0739443	3,19516E-10
Остаток	14	0,557083951	0,039791711		
Итого	16	12,65964877			

In this model, the foreign trade turnover between U-Kazakhstan and Uzbekistan, the GDP of Uzbekistan-X1, the volume of GDP of Kazakhstan -2.

**Table 5. Comparative analysis of the results obtained in Kazakhstan**

Мамлакатлар	Кўплик-даги Р	R*2	Р-квадратНормиро-валланган	Тасоди фийхатоликлар	Олинган асосий натижалар
КОЗОФИСТОН	0,9777	0,9559	0,9497	0,1994	$\ln Y = 0,25 \ln X_1 + 0,79 \ln X_2 + 2,52$

According to the analysis, the conclusions drawn from the gravitational model are:

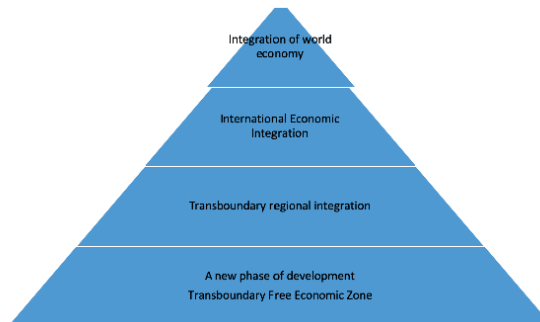
Kazakhstan ranks third among the 10 largest partners of the country (in 2016, the total trade turnover between the two

	Коэффициенты	Стандартная ошибка	t-статистика	P-Значение	Нижние 95%	Верхние 95%	Нижние 95,0%	Верхние 95,0%
Analysis Y-пересечение	2,522085908	0,258861909	9,742978109	1,28843E-07	1,966882333	3,077289484	1,966882333	3,077289484
Переменная X 1	0,258802949	0,176292342	1,468032845	0,164201615	-0,11930652	0,636912418	-0,11930652	0,636912418
Переменная X 2	0,794368698	0,144948834	5,480338671	8,10315E-05	0,483484369	1,105253027	0,483484369	1,105253027

as well as migration issues can also affect the outcome of this model (Shumilov, 2011).

One of the main ways to address the negative effects of these factors is the establishment of a free economic zone. Transborder FEZ is the main means of overcoming the aforementioned tariff and non-tariff barriers and illegal migration.

For example, establishing a transborder free economic zone Chirchik-Sariagash.



**Figure 3. Transborder Free Economic Zones as Early Stage of Economic Integration**

**Image author development**

An important factor in the growth of investment attractiveness of our country. Taking into account that Kazakhstan is a member of the Eurasian Economic Community as a basis of our opinion, it will provide a great opportunity for us to obtain cheap imported raw materials and to export national products abroad.

Both cross-border and cross-border FEZs play an important role in regional and integration formation.

In addition, creating a trade and transit zone in our country will create a complex, which includes a logistics center, which will include road and rail transport, provide safe and fast shipping of goods through the transit zone, and the establishment of warehouses and wholesale stores. This will allow them to organize their activities (Umurzakov & Vohidova, 2017).

Given the fact that Kazakhstan produces 1.82% of world oil, the possibility of increasing oil exports to Uzbekistan within the FEZ will also increase.

Due to the low investment attractiveness of existing FEZs, implementation of 68 investment projects by 2018, and one of the main factors affecting the investment climate, cross-border FEZs are relevant. For example, over 80 investment projects have been implemented by 2018 in the Manchuria FEZ alone. As a result, production diversification and tourism development in both countries have been achieved.

Another important aspect of the FEZ is the fact that consumer prices in Uzbekistan are lower than those of Kazakhstan and China, including food differences, suggesting that imports of food products (rice, eggs, meat) from Uzbekistan to Kazakhstan are cheaper than Chinese products.

It is desirable to establish one of such regions in Samarkand region of Uzbekistan and Soghd region of Tajikistan. In other words, Urgut and Panjakent districts are selected as transborder. The positive side of the issue is the fact that Uzbekistan's FEZ "Urgut" is located in this region and has experience in creating a free economic zone, which is a problematic aspect of the fact that these adjacent territories are located in the mountainous area and that the main vehicle is the vehicle. If the Urgut-Panjakent cross-border FEZ is to be established, it would be advisable to make arrangements after the development of the transport and production infrastructure in the area.

Another important alternative is the establishment of a transborder FEZ in the border areas of Uzbekistan in Andijan and in the Osh region of the Kyrgyz Republic. Andijan region has the following transport infrastructure:

- The length of automobile roads is almost 2.5 thousand km;
- Flights from Andijan region to all CIS countries;
- Availability of railroads running from Andijan region to the Andijan-Tashkent, Andijan-Jalalabad / Osh and other local areas.

The presence of large heavy and light industry enterprises in the Uzbek province of Andijan also facilitates the establishment of a transborder FEZ in the region.

One of the border areas of Uzbekistan with Central Asia is the Khorezm region of Uzbekistan and Dashaguz provinces of Turkmenistan. During the visit of the President of the Republic of Uzbekistan ShavkatMirziyoev to Turkmenistan, the governments of the border areas of the two countries, including Khorezm region and Dashoguz province of Turkmenistan, agreed on cooperation in trade, economic, cultural and humanitarian spheres. In particular, a system of participation in international fairs, exhibitions, seminars and conferences was planned to facilitate mutually beneficial cooperation between enterprises and organizations, the establishment of joint ventures and the joint use of the tourism potential of both regions (Bobojonov, 2017). In addition, Turkmenistan is a seaside country and the establishment of a trans-border FEZ at the time of the opening of the Uzbekistan-Turkmenistan-Iran-Oman transport corridor will improve trade and economic relations between Uzbekistan and not only Turkmenistan, but also Iran and the Persian Gulf. The major partners of Uzbekistan such as China and Russia are also interested in this agreement.

## CONCLUSIONS AND SUGGESTIONS

Based on the study the author came to the following conclusion:

1) Transborder free economic zones are important for Central Asian countries, where trade and economic relations are developing. In particular, for Uzbekistan, which has limited access to the sea, such zones provide the following opportunities:

- Transborder zone established on the border of Uzbekistan with Khorezm and Dashaguz provinces of Turkmenistan Uzbekistan improves access to sea, improves trade and economic relations with Forz Gulf through the transport corridor Uzbekistan-Turkmenistan-Iran-Oman and exports of consumer goods produced in Uzbekistan to the Turkmen market. capacity increases;
- The establishment of cross-border FEZ in the border areas of Andijan and Osh regions of the Kyrgyz Republic is an alternative option for the joint textile and knitwear companies and their infrastructure, taking into account the entry of Kyrgyz goods into the European market for more than 6,000 commodity items. is considered
- Creation of the Chirchik-Sariagash Transborder Free Economic Zone of Uzbekistan and Kazakhstan will allow the development of trade and economic relations with China and Russia along with the effective use of four transport corridors of Uzbekistan.

2) However, the economic policy of the countries is also important in establishing such free economic zones. For example, given that Kyrgyzstan and Kazakhstan are members of the WTO and the Eurasian Economic Community, there is a risk that Uzbekistan's high-cost commodities will be less competitive and that food and machine industries in Uzbekistan will be at risk.

3) The creation of a transborder free economic zone in Central Asia is relevant until the economic integration of Central Asian countries is established.

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