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M.Kh Vokhidova

*Tashkent State University of Oriental Studies, PhD, mehrivoxidova@gmail.com*

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## **IMPACT OF WTO MEMBERSHIP ON SPECIAL ECONOMIC ZONES**

**Vokhidova Mehri Khasanovna**

**Lecturer of Tashkent State University of Oriental Studies, PhD**

**[mehrivoxidova@gmail.com](mailto:mehrivoxidova@gmail.com)**

**Abstract.** This article examines the benefits of special economic zones (SEZs) under the WTO and the legal framework for government subsidies. The studied theoretical and methodological data are analyzed in practice on the example of China.

As a result of the research, the following recommendations were made:

- The active use of such a tool in the SEZs of the country, based on the experience of China, to encourage exports, actively use the VAT refund system to exporters;

- Retention of benefits from income or profit tax rates on the territory of SEZs (around 50%);

- In accordance with the requirements of the WTO, it is necessary to introduce a special product or network support system and promote this position during the negotiations with the WTO;

- Taking into account the activities of agro-zones in Uzbekistan, it is proposed to implement the support of agro-zones of the country on the basis of the state program.

**Keywords:** World Trade Organization (WTO), Special Economic Zone (SEZ), China, subsidies, tax and customs benefits, exports.

### **Introduction**

Many developing countries set up export-oriented production zones, special industrial zones or free trade zones in order to attract more foreign investment and increase the country's export potential. They provide a system of incentives that are different from the rest of the domestic economy with developed infrastructure, regulatory and fiscal policies to attract foreign investment, employment and increase exports in these special economic zones.

Although none of the multilateral agreements sponsored by the World Trade Organization (WTO) explicitly specifies the names of special zones, some types of incentives, which are usually part of economic zone policies, are forced to comply with the terms of the WTO agreement.

The Agreement on Subsidies and Compensation provides a brief overview of the application of WTO requirements in incentive programs applied by developing countries in connection with economic zone programs. As with all legal frameworks, individual rules can be interpreted differently, and the final decision on the legality

of a particular measure remains with the competent interpretation of the WTO and its members.

In this note, SEZs are defined as geographically separated areas located outside the customs territory of the country, usually physically protected. They can range in size from a factory to large cities. SEZs will be managed by the public and private sectors. Typically, enterprises located in the territory of SEZs can enjoy benefits such as customs and tax benefits, depending on the location of goods in this zone. Different countries have used different names for zones with these features. These are the "industrial free zone" and "export free zone" in Ireland, the "maquiladora" in Mexico, the "duty-free export processing zone" and the "free export zone" in the Republic of Korea, the "export processing zone" in the Philippines, and "investment attraction" in Sri Lanka. zone ", " foreign trade zone "in India and " free zone "in the United Arab Emirates," development zones "may also fit the definition of SEZs [2, Creskoff, Stephen; Walkenhorst, Peter].

Developing countries are increasingly using SEZs as an important tool for economic development. A recent study noted that there are more than 2,300 SIZs in 119 developing and transition countries around the world [3, Fabrice Defever, José - Daniel Reyes, Alejandro Riaño Miguel, Eduardo Sánchez - Martín]. Since the late 1970s, China has used SEZs to pursue new economic policies, provide modern infrastructure, and attract investment in export-oriented industries. According to the World Trade Organization's 2008 Trade Policy Package, in 2006 there were 660 free trade zones and development zones and 1,346 development zones approved by local governments. Following the example of China, Vietnam is also making extensive use of SEZs to pursue new economic policies, improve infrastructure and attract investment. As of July 2005, Vietnam had 124 industrial and export processing zones, involving 3,612 investment projects worth more than \$ 15 billion.

At a time when the Republic of Uzbekistan is in the process of negotiations on accession to the WTO, it is important to analyze the state of special economic zones in the country and the benefits (reduction or increase) for their residents after accession to the WTO [1, Cabinet Resolution].

It is worthwhile to study the topic on the example of the benefits provided by SEZs to SEZs after the accession of developed countries to the WTO.

### **Literature review**

The topic is covered in theoretical and practical research by scientists from various developed and developing countries. In particular, Creskoff, Stephen's research highlights the legal basis for bringing the activities of special economic zones of developing countries in line with WTO requirements [2, Creskoff, Stephen; Walkenhorst, Peter].

The research of Fabrice Defever José - Daniel Reyes Alejandro Riaño Miguel Eduardo Sánchez - Martín on the example of the Dominican Republic explores the

possibility of adapting SIZ activities to WTO requirements. According to this article, there is a proposal and program for the gradual abolition of subsidies and compensations applied in the SIZs of the Dominican Republic in 2006-2014 [3, Fabrice Defever, José - Daniel Reyes, Alejandro Riaño Miguel, Eduardo Sánchez - Martín].

According to Sherzod Shadikhodjaev, the WTO does not provide a special preferential system for SEZs, and membership in the WTO will lead to the abandonment of opportunities and benefits created by SEZs for SEZs. The study also proposes to provide special benefits for SEZs of WTO member states [4, Shadikhodjaev Sherzod].

It should be noted that Uzbek scientists have not yet studied the opportunities or losses of Uzbekistan's accession to the WTO. Therefore, the study of this topic by the author is relevant.

### **Research methodology**

The WTO's approach to SEZs and the benefits, preferences and subsidies provided to them by the state, as well as the analysis and synthesis of its legal framework, provides a practical analysis of the potential of WTO membership for SEZs in developing countries.

### **Analysis and results**

With regard to seemingly legitimate measures, the WTO Agreement on Subsidies and Compensation Measures exempts from the definition of “subsidy” the basic tax exemption provided by SEZs, i.e. taxes and duties on goods exported from SEZs. Thus, the following measures related to SEZ are considered legitimate for WTO:

- Exemption of exported products from import duties;
- Exemption of exported products from indirect taxes;
- Exemption from import duties and indirect taxes on the import of consumer goods in the production process;
- Exemption from import duties and indirect taxes during the removal or removal of industrial waste;
- Exemption of goods stored in SEZs from customs duties and indirect taxes;
- non-military subsidies, including tax rates applied by national, regional and local public authorities.

There are two measures related to FEZ programs that are inconsistent with WTO discipline. They are:

Prohibited subsidies set out in Article 3 of the Agreement on Subsidies and Compensation Measures pose the greatest problems: export subsidies and subsidies for import substitution. Export subsidies are subsidies that result from the performance of an export under this law or in practice. Subsidies of local content are

subsidies related to the use of local goods instead of imports. In particular, government subsidies prohibited by the WHO under SEZ programs include [2, Creskoff, Stephen; Walkenhorst, Peter]:

- subsidies directly related to exports;
- transport and freight preferences for export;
- provision of local products and services for export on favorable terms with local goods;
- exemptions or deferrals from direct taxes or social payments, if they are related to exports;
- Allowing direct special tax deductions for exports in respect of taxes paid on domestic consumer goods;
- exemption or payment of indirect taxes on exports in respect of goods sold for domestic consumption;
- payment, exemption or delay of excess taxes on goods sold for domestic consumption of goods or services used in the production of exported goods;
- provision of export loans or insurance programs at inappropriate premium rates to cover long-term costs;
- export loans at rates lower than the rates paid for them or market prices, or full or partial payment of the cost of obtaining a loan;
- Subsidies arising from domestic consumption in respect of imported goods.

While the establishment of free economic zones in China was a trend that began in the 1980s, the country reconsidered the privileges and preferences in FEZ activities after joining the WTO in 2001.

In the newly industrialized countries of Asia, including China, regional policy has become a key mechanism for industrial development and has allowed for the formation of “industrial enclaves” of economic growth. Export and science and technology free economic zones have become widespread in China.

Within the framework of the WTO, various international agreements aimed at promoting fair competition in the field of foreign trade regulation are applied. The main contracts include:

- Agricultural Agreement;
- General Agreement on Trade in Services;
- Agreement on Intellectual Property Rights;
- Agreement on subsidies and countermeasures;
- Agreement on Technical Trade Barriers;
- Agreement on sanitary and phytosanitary control measures;
- dispute resolution agreement.

According to WHO rules, domestic aid is divided into three baskets: green, black and blue. The basic principle of basket measurement depends on the impact of international trade.

Supportive measures that can be applied without restrictions on the green basket. If these rules are not followed, these measures should be reported to the WTO. In this case, the WTO Member State must justify that these notified measures meet the green basket criteria set out in the Agriculture Treaty. There are two main criteria for such compliance: 1) funding should be provided from the state budget under the state program; 2) support should not be focused on monitoring the prices of agricultural goods.

Unlike the green basket, the black basket is a measure that has a disruptive effect on trade in size. Such measures are limited by clearly defined limits, the number of which is recorded in the list of obligations of each country in absolute terms, in the form of measures to be supported, called the general measure of support. Member States are required to coordinate support from that State with WTO members, and commitments on the amount of assistance they coordinate are included in the list of entry documents. If the overall size of the support is not included in the list, then only minimal support can be provided within the basket. Minimum measures for the yellow basket should include a share of support for the gross value of the product produced: for developed countries - 5%, for developing countries - 10%.

Custom product support is focused on supporting a specific product or network. Non-specific product support is provided without reference to a specific product. The measures allocated by the third basket under the agricultural agreement are aimed at limiting production.

The main regulation governing export restrictions is the article XI GATT-1994 on the total abolition of quantitative restrictions. The lack of individualization of the rules governing the introduction of restrictions allows countries to circumvent a number of rules in restricting export operations. During the Uruguay Round negotiations, it was agreed that under the agricultural agreement, import restrictions on agricultural products could only be in the form of limited tariffs. Thus, there are legal inconsistencies in the regulatory documents of the WTO in the regulation of export and import restrictions.

After joining the WTO, China was forced to move to liberalize its foreign trade regime by reducing tariffs and customs controls. In the course of market reforms, the Chinese government has significantly reconsidered the conditions for attracting foreign investment to economic zones, as it has begun to outweigh the incentive effect of budget losses from providing financial incentives to foreign investors. It should be noted that the program to reduce the benefits of the Chinese Free Economic Zone was developed in 1990, 11 years before the country's accession to the WTO. Today, the package of tax benefits in the FEZ includes only the right to receive preferential rates of corporate income tax. The previous importance of China's free economic zones for the country's economy depends on the following facts:

First, the level of market economy in China and the peculiarities of the economic policy pursued by the Chinese government do not allow for the abandonment of SEZs in the near future;

Second, strong political forces at the local government level and their lobbyists in Beijing are interested in the functioning of existing SEZs and the creation of new ones. The implementation of such a policy towards the SIZ is due to the struggle for economic resources between the upper and lower governing bodies. This mechanism is based on the traditions of the collective economy, which were formed over decades and were genetically pre-reform.

The Protocol on China's accession to the WTO sets the following requirements for the activities of the SEZ:

Mandatory notification of the competent structures of the WTO on all established zones, existing legal documents and economic policy measures in relation to these territories;

The same customs control should be applied to the import of goods into China through these zones in respect of goods imported into another customs territory of the PRC;

For MIXs to work, all preferential regimes must be based on the principles of national treatment and non-discrimination, except in exceptional cases.

Thus, the fulfillment of the obligation to abolish subsidies for the export of products agreed with the WTO. However, there are no export duties at all to promote exports for many goods in the country. China has also actively used such a tool to encourage exports as a VAT refund to exporters. Export-oriented Chinese and foreign companies enjoy these benefits. Upon completion of the export agreement, such enterprises have the right to submit documents for VAT refund to the Chinese tax authorities. This situation persisted until 2007, when, according to the decision on VAT refund rates, they were significantly reduced and some goods were completely abolished. The Chinese government has managed to reduce imports of agricultural products due to falling domestic prices. In the process of implementing economic policy, the Chinese government has managed to protect the domestic market from importers through a number of protective measures aimed at improving the quality of goods.

The first free economic zones in the Republic of Uzbekistan were established in 2008. By 2020, the number of free economic zones operating in the country was 22. These include complex, technological, agro and special farm zones. The benefits provided for in paragraph 3 of the Decree of the President of the Republic of Uzbekistan dated October 26, 2016 No. PF-4853 "On additional measures to accelerate and expand the activities of free economic zones" are granted for a period of 3 to 10 years, including the equivalent:

When investing from 300 thousand US dollars to 3 million US dollars - for a period of 3 years;

When investing from USD 3 million to USD 5 million - for a period of 5 years;

When investing from USD 5 million to USD 10 million - for a period of 7 years;

1. For investments of 10 million US dollars and more - for a period of 10 years, for the next 5 years the rates of income tax and single tax are applied at a rate 50% lower than the current rates [5, "Tax and customs exemptions in free economic zones" on the order of application "].

In accordance with paragraph 4 of the Decree of the President of the Republic of Uzbekistan dated December 2, 2008 No. PF-4059 "On the establishment of a free economic zone in Navoi region" [7, Decree of the President of the Republic of Uzbekistan], business entities registered in FEZ are exempt from customs duties for raw materials, supplies and components (excluding customs clearance fees) for the production of goods for export during the period.

In accordance with paragraph 5 of the Decree of the President of the Republic of Uzbekistan "On additional measures to activate and expand the activities of free economic zones" PF-4853 dated October 26, 2016, participants of SEZ "Angren" and SEZ "Jizzakh" are exempt from customs duties for imported raw materials, supplies and components (except for customs clearance fees) [8, Decree of the President of the Republic of Uzbekistan].

### **Conclusion and suggestions**

But what will change if Uzbekistan becomes a member of the World Trade Organization?

profit tax and single tax rates will have to be changed in accordance with WTO requirements;

Goods transported through the customs territory of SEZs will be subject to the same requirements as in other regions, ie customs equipment for imported equipment, as well as raw materials, materials and components for the production of goods for export throughout the FEZ. will have to pay their fees in the same way as in other parts of the country.

In order to increase the opportunities for the country's SEZs to join the WTO, we offer the following:

- active use of such a tool in the SIZs of the country, based on the experience of China, to stimulate exports, a system of VAT refund to exporters;

- Retention of benefits from income or profit tax rates on the territory of SEZs (around 50%);

- Based on the requirements of the WTO, it is necessary to introduce a special product or network support system and promote this position during the negotiations with the WTO. It will be possible to introduce a special product or network support system in the activities of SIZs. That is, if the export of pharmaceutical products is selected as a targeted and privileged sector in the process of accession to the WTO, it will be possible to support pharmacies;



- Taking into account the activities of agro-zones in Uzbekistan, it is proposed to implement the support of agro-zones of the country on the basis of the state program. However, it should be noted that the opportunities provided to agro-zones should not lead to lower prices and the use of dumping prices in exports.

It should be noted that while the country's membership in the WTO leads to a reduction in benefits for SEZs, Uzbekistan's strategic location, raw material reserves, low labor costs relative to the world market increase the attractiveness of SEZs and increase export opportunities and import of high-tech equipment. The process is accelerated.

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