

THE IMPACT OF OFFSHORE AREAS IN PROVIDING MOBILITY OF INVESTMENTS

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Abstract. *The article examines the activity of offshore areas directly related to the legalization of illegal money flows, which is one of the current problems of economic security. The objectives of their organization, the advantages and disadvantages of the operation of offshore regions are studied and analyzed based on the definitions of foreign economists. Also, the experience of developed countries in the world community (Netherlands, France, Italy, China) in the management of offshore areas was studied.*

In addition, the impact of the COVID-19 pandemic, which has had a huge negative affect on the movement of investments, on the mobility of offshore regions and investments in them is interpreted based on statistical data.

Today, as a special type of special economic zones, offshore areas are remembered as areas that perform the function of dubious financial transactions and the laundering of criminal income, but the international practical experience of using offshore areas shows that offshore areas are regions that activate investment mobility and are becoming one of the modern approaches to effective investment management in international trade, investment, insurance, financial and other spheres of activity.

Effective management of investments in the market economy requires the development of new principles. In this regard, in our scientific research, in the effective management of investments, offshore areas included in the pursuit of special economic zones in the world community and their importance in ensuring the mobility of investments were analyzed, and general conclusions and suggestions were given based on the knowledge learned in the further activation of investment mobility in the world community.

Key words. *offshore zones, special economic zones, economic security, investment climate, management of investments, tax burden, tax benefits, "tax haven"*

Introduction. *Through the globalization of the world economy, it is important to ensure investment mobility, create a favorable investment climate, use the factor of special economic zones to increase the efficiency of attracting investment to the economy. Today, as a particular type of special economic zones, offshore zones are remembered as zones responsible for the laundering of dubious financial transactions and criminal proceeds, but, international experience in the use of offshore zones shows that offshore zones are a region that stimulates investment mobility and becoming one of the modern approaches*

to effective investment management in international trade, investment, insurance, finance and other activities.[9]

Materials and methods. In international economic relations, economists have given different definitions of offshore zones and their offshore zones, which are a special type of special economic zones. According to Russian economist A.S. Balladina, the Special Economic Zone (SEZ) is a part of the country where a preferential regime of economic activity is established for foreign investors and enterprises with foreign investment. Namely, it is an area that is exempt from the usual customs, taxes, and in some cases currency and banking legislation.[11]

A.S. Tariverdiev gives them the following definition in his scientific work on the activities of offshore zones "offshore zone is a part of the National Economic space, where a system of preferences and preferences for local and foreign entrepreneurs is created, which allows the creation of priority sectors of the economy on the basis of the latest technologies, this, in turn, will ensure the sustainable development of the economy, the production of high-quality products and delivery to the world market, it also plays a significant role in the successful development of the socio-economic life of the territories on which its base is located."[14]

Russian economist scientists Y.P.Gospodarik and M.V.Pashkovskaya said that offshore is a special financial center that attracts foreign capital by providing special taxes and other benefits to foreign companies registered in the country where the territory is located, in this territory, States and special territories that are legally allowed to register and operate offshore businesses, offshore companies, and where a large number of benefits are

applied to residents are called offshore jurisdictions.[12]

According to the results of research conducted by another Russian economist scientist V Shumilov, "Offshore is an international economic zone that includes complex processes. This type of zone is the territory of the state or part of the state territory, specialized in the provision of a special favorable legal regime (registration, tax service, banking services), while maintaining confidentiality with respect to foreign legal entities."[16]

As mentioned above, offshore zones are a particular type of special economic zones. When it comes to talk about the essence, directions and mechanisms of application of offshore zones, we mean, first of all, the economic-geographical region with low tax jurisdictions.[5]

To date, research on offshore zones and their activities in our country is less studied than in other areas, and now that the activities of offshore zones are one of the global issues in the world community, conducting research on their activities determines the relevance of our topic.

The article makes extensive use of a number of research methods, including interpretation, statistical observation, comparison, comparison, induction and deduction, monographic research, and clustering, to study the impact and importance of offshore zones on investment mobility, which is a particular type of special economic zones.

Results. A distinctive feature of the countries on the list of modern offshore zones is that they are island states, including the Caribbean, Cayman Islands, Virginia, Bermuda, the Bahamas and others. This situation is not accidental, of course. Due to the "natural isolation" of these areas, the lack of underground and surface resources,

and the underdeveloped domestic markets, these areas are highly dependent on foreign capital. Thus, the creation of preferential conditions for doing business, first of all, the provision of a preferential tax regime is the main way to attract foreign investment in order to increase the level of economic development of such a region. This, in turn, means that as the number of companies in the offshore zones of these naturally restricted islands increases, the well-being of the local population, the employment rate of the population and the income of the population from local government registration fees and annual fees will increase.

However, one of the main principles in the activities of offshore zones is that these tax benefits are set only for foreign investors. This feature should separate them from the domestic market so as not to harm the competitiveness of local companies, as well as offshore tax, currency and customs legislation of companies of foreign investors in offshore zones, which makes them attractive for investment.[6] All the necessary funds to set up an offshore business must be brought in by foreign legal entities, that is, through foreign capital.

some offshore zones, companies can be registered even if the minimum amount of authorized capital is not enough, but in most cases there is a requirement for a minimum amount of authorized capital;

fourthly, the minimum requirement for submission of financial statements. In fact, companies in offshore zones (although not in all offshore jurisdictions) do not require financial performance reports or audits, thus providing another important advantage of offshore companies - their confidentiality. However, this advantage of

Thus, the main task of offshore zones is to attract additional investors to the financial systems of the Aral Sea countries. At the same time, investors will be able to take following advantages of offshore companies as an international tax planning tool:

firstly, the ease of registration. It is easier to register a company offshore than to set up a company in another country. In addition, an offshore company can act as an international business center that is more flexible and confidential, as well as increasing the efficiency of using cash when there are offshore accounts in different countries and in different currencies;

secondly, the low tax burden. Taxation in offshore jurisdictions is significantly lower, and in some cases even at a zero tax rate. The tax burden can only fall on the annual fee of a fixed fee, or a one-time registration fee. A separate tax is paid for banking and insurance licenses, if necessary;

thirdly, the low charter amount. The amount of authorized capital to register a company in offshore zones is much lower than in ordinary countries to register a company. In

"tax haven"¹ [17] is now controversial, as a number of governments and leading international communities, primarily the G20 and the OECD, are forced to take steps to make offshore activities more transparent.[13]

The purpose of creating offshore zones is to develop offshore businesses that bring additional revenue to the country. At the same time, the offshore countries will be

¹ A tax haven is a territory that does not offer minimal or no tax liability for bank deposits to foreign businesses and individuals in a politically and economically stable environment. Available: R.A. Muhitdinov and others. Encyclopedia of Law of Uzbekistan. Tashkent, 2010. P. 704

able to attract additional foreign investment, increase incomes and create new jobs to develop their national economies. In offshore zones, the income tax is usually not available, and even if it is available, it is approximately 1-2%. In offshore zones, instead of income tax, an annual payment of a certain amount is charged. Offshore territories with this feature have fallen into the attention of large business organizations.[1]

Discussion. As above mentioned, the main part of the offshore territories is located on the European continent, Asia and the Pacific, where the maintenance of capital will be guaranteed politically and economically. According to the results of the analysis conducted on the location of offshore regions, we can see that offshore regions are organized around the regions where investment mobility is active, and that their number is correctly correlated with the movement of investments in the region

where they are located. (Figure 1) From the above data, we can see that the inflow of foreign direct investment is high in developing countries.

Developing countries accounted for \$ 663 billion in foreign direct investment in 2020, accounting for 34.6 percent of total investment inflows. Next is the Asian region, where foreign direct investment flows totaled \$ 535 billion in 2020, accounting for 27.9 percent of total investment movements. Then we can see the developed countries with a rate of 16.3% in terms of foreign direct investment in 2020. In 2020, a total of \$ 312 billion in foreign direct investment flow was observed in developed countries. Of particular importance is the high gap between the total foreign direct investment movement in 2019 and 2020. The reason is the COVID-19 pandemic, which has brought the world economy to the brink of collapse.

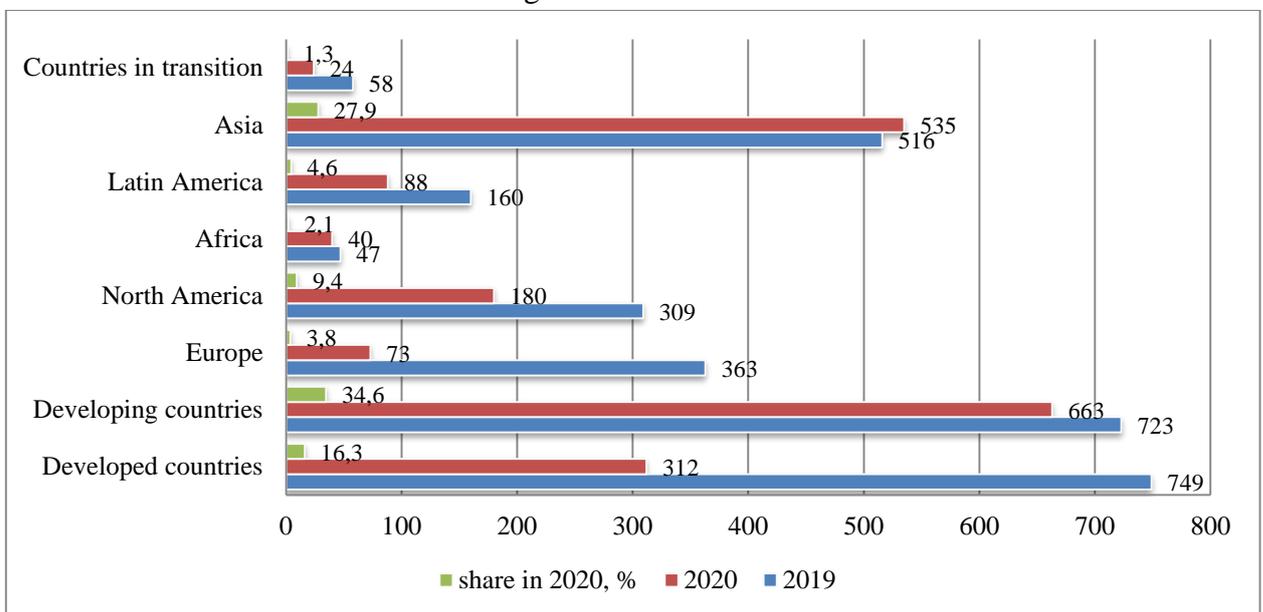


Figure 1. Foreign direct investment movement by regions of the world in 2019-2020 (in billions of US dollars and percentages)[8]

It should be noted that in 2019, the inflow of foreign direct investment amounted to \$ 2 878 billion, and in 2020 - \$ 1 915 billion. This means that in 2020, the

inflow of foreign direct investment was 33.5% lower than in 2019, with an absolute figure of \$ 963 billion. Today, a number of measures are being taken to reduce the

negative impact of the COVID-19 pandemic and to revive the economy, and to address the issue of increasing investment mobility.[2]

Through offshore zones, foreign capital is used to improve the internal

infrastructure of the host country. At the same time, there are economic, social, scientific and technological goals for the establishment of offshore zones. (Figure 2)

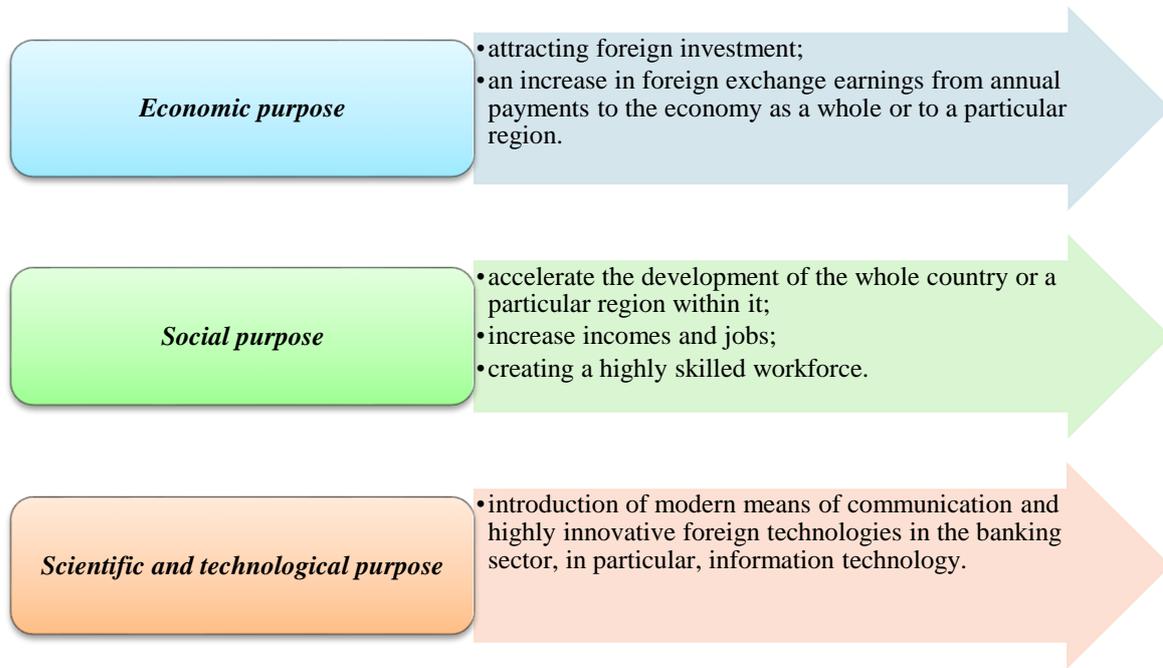


Figure 2. Objectives of establishing offshore zones[13]

In practice, these targets may vary depending on the specific situation and the type of offshore zones.[10] For example, the targeted tax policies of privileged offshore jurisdictions in countries such as the Netherlands and Luxembourg have not only attracted large amounts of additional investment into their economies, but have also made them the world's largest investors. At the same time, in order to take advantage of offshore zones, small or economically underdeveloped countries go the way of turning the whole country into an offshore zone and, accordingly, form the structure of the national economy.

The establishment of offshore zones to support economic relations between France and the Kingdom of Monaco is becoming more active. E. Chambost, a well-known expert on offshore activities, said:

“The flow of funds through Monaco goes through zone accounts managed by the Bank of France.”[4] In this context, France is interested in keeping Monaco a “tax haven.”[15]

The establishment of offshore zones in Italy and the effective management of investment mobility through them can be considered in the case of Campione D'Italia. The tax breaks in the campaign are only valid for locals or foreigners who have moved there. This Italian enclave in Switzerland is very small, with a population of about 3,500. 1,500 of them are called “tax refugees.” Therefore, Campione's potential as an offshore zone is limited compared to other offshore zones and cannot have a negative impact on the tax policy situation in Italy. On the other hand, the use of the city by foreigners as a “tax haven”

contributes to Italy's foreign exchange earnings. The government's efforts in this regard are mainly aimed at preventing the negative impact of domestic offshore zones on the country's economy.[7]

A good example of the use of offshore zones for the benefit of the state can be seen in the example of China. The most effective offshore area in China is the Hong Kong offshore area. The Chinese government has maintained the existing economic system by proclaiming the principle of "one state, two systems." In addition, the Chinese government is interested in its effective operation and is expanding its foreign trade relations, financial and economic opportunities through the Hong Kong offshore zone. Taking into account China's experience in using special economic zones, in attracting active investment in the country, "the transfer of sovereignty over Hong Kong to the Chinese government did not lead to a general flight of capital, as some analysts predict." and to make the most of its offshore potential to develop the entire country's economy. Currently, Hong Kong is being actively used by the Chinese government as the country's main "economic gateway" and a source of foreign exchange earnings. It can even be said that Hong Kong's economic territory has spread to the neighboring Shenzhen Free Economic Zone.

Conclusion. Based on the analysis and results of the research, the following conclusions were formed:

- the application of tax benefits in

offshore zones, such as special economic zones, means that it will be included in the follow-up structure of special economic zones;

- financial infrastructure (high level of banking and financial services) for the establishment and development of any type of special economic zones and offshore zones, a relatively cheap and at the same time highly skilled labor force, the absence of administrative and bureaucratic barriers, the need for a stable legal framework;

- non-taxation of income from offshore zones or the application of 1-2 % rates in some areas ensures the confidentiality of money laundering;

- the country with offshore zones receives a large amount of foreign investment;

- offshore zones play an important role in strengthening the competitiveness of the national economy;

- The results of scientific research show that the implementation of the following proposals and recommendations will have a positive effect on the activity:

- improving the investment climate to ensure investment mobility, in this regard the introduction of highly innovative import-substituting technologies to improve the infrastructure of economic and geographical regions;[3]

- creation of special economic zones, which are important in actively attracting investment in particular, foreign direct investment to the economic and geographical regions of the country in economic depression.

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