



**FREE ECONOMIC ZONES IN TURKMENISTAN:
IMPACT ON ECONOMIC DEVELOPMENT**

BY

MR. DOVLET GAYYPOV

**AN INDEPENDENT STUDY SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE
OF MASTER OF BUSINESS ADMINISTRATION PROGRAM IN
GLOBAL BUSINESS MANAGEMENT
(INTERNATIONAL PROGRAM)
FACULTY OF COMMERCE AND ACCOUNTANCY
THAMMASAT UNIVERSITY
ACADEMIC YEAR 2021
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INDEPENDENT STUDY

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ENTITLED

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ABSTRACT

The independent study is devoted to the analysis of the problem of free economic zones as a source of regional development and their impact on economic development of the country. The purpose of the study is to identify the economic impact of free economic zones on the economic development of Turkmenistan.

This independent study aims to address these impacts through a case study answering the research question of “How does a free trade zone positively impact on the economic development?”

In order for the readers to have a proper background understanding of the subjects being discussed, the study gives review of literatures starting from basic like what Free Economic Zones and Special Economic Rules are in general, what it is like in Turkmenistan, the country’s implementation and increased roles of Free Economic Zones in strategies of the country for economic development.

Through the case study involving international standards and best practices, analysis of statistical reports with economic indicators and the in-depth analysis of a zone located in the country, positive impacts are identified and discussed in more details.

The study finds that the identified positive impacts are of high importance and help developing country in fostering economic process and societal development.

According to the findings, the paper comes up with recommendations for Free Economic Zones to increase its role in the economic development of the country.

Keywords: Free Economic Zone, Economic Development,
Awaza National Tourist Zone



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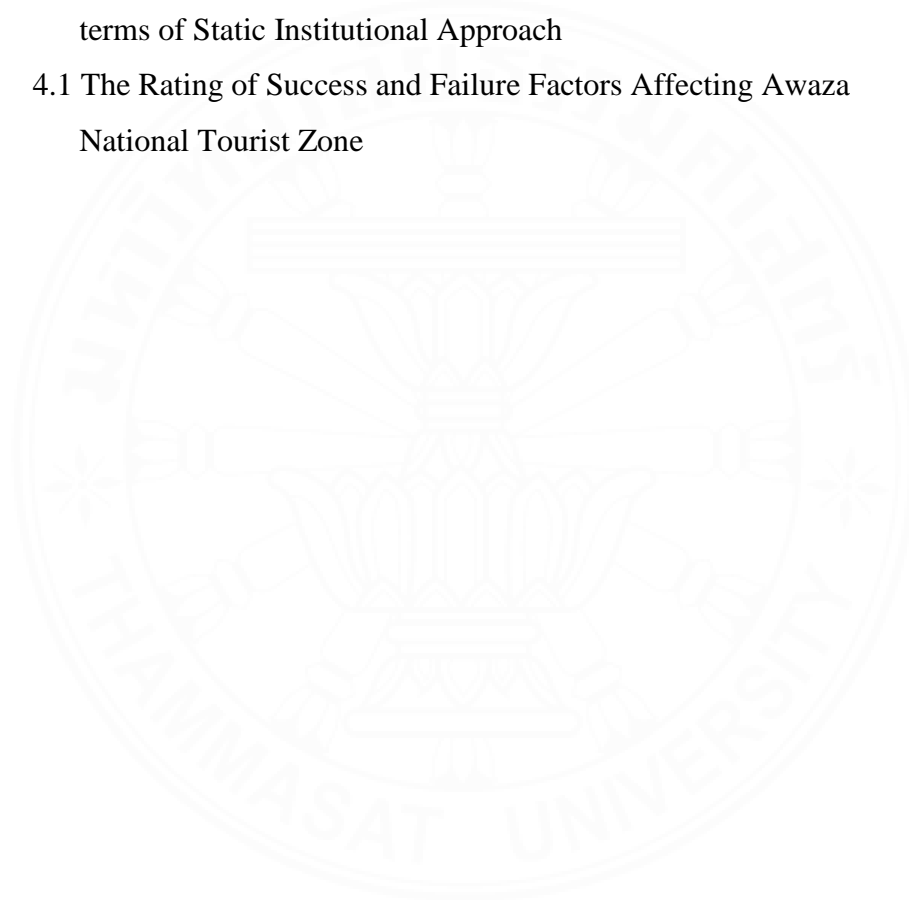
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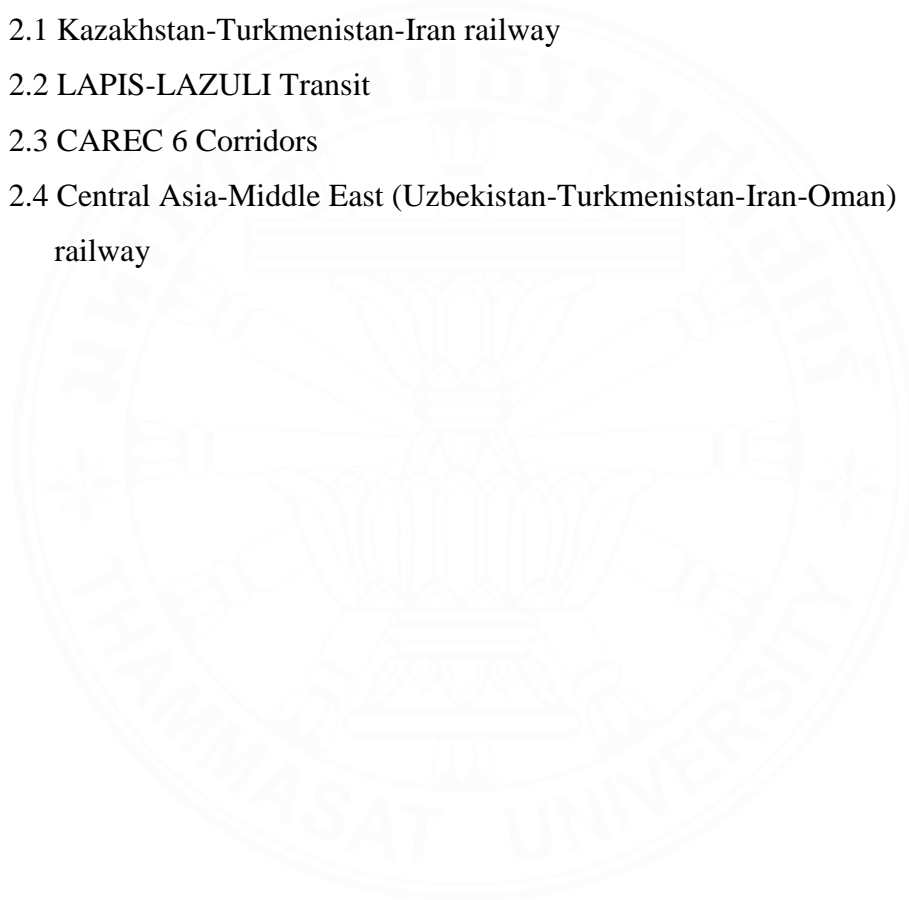
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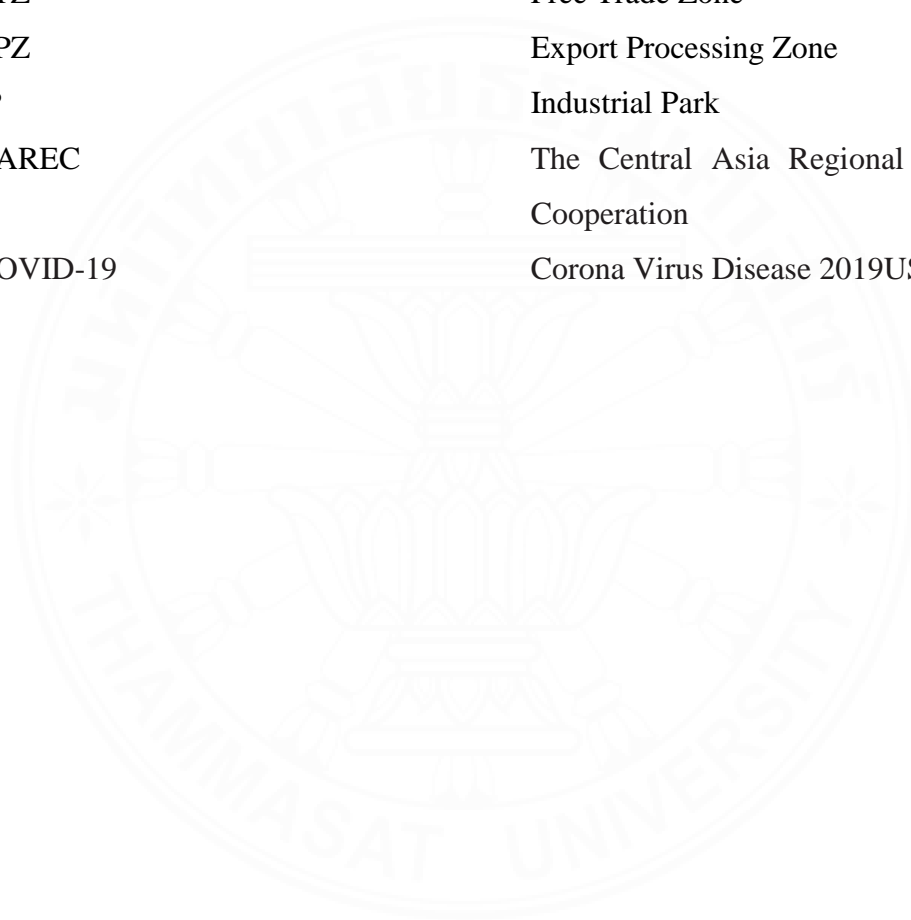
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LIST OF ABBREVIATIONS

Symbols/Abbreviations	Terms
FEZ	Free Economic Zones
SEZ	Special Economic Zone
FTZ	Free Trade Zone
EPZ	Export Processing Zone
IP	Industrial Park
CAREC	The Central Asia Regional Economic Cooperation
COVID-19	Corona Virus Disease 2019USD



CHAPTER 1

INTRODUCTION

The independent study is devoted to the analysis of the problem of free economic zones as a source of development and their impact on economic development. The purpose of the consultant project is to identify the economic impact of free economic zones on the economic development of Turkmenistan and discover solutions to improve the performance of FEZs and increase their potential contribution to economic development.

This independent study seeks to address these impacts through a case study answering the research question of “How does a free trade zone positively impact on the economic development?”

1.1 FEZ Development in Turkmenistan

After the collapse of Soviet Union, Turkmenistan faced various challenges through its state establishment. Transition of Socio-economy in the country started with a delay and has progressed slowly and unevenly since. Especially, restructuring socialist system into market economy was so painful that its symptoms are still faced after three decades. Turkmenistan’s remote geographic location (far from major centers of world business activity), landlocked situation (although bordering the Caspian Sea, which is not an open sea) don’t help the country’s integration into the world economy and therefore its economic development, even it is well-endowed with natural resources. In this regard, Turkmenistan pursued an active investment policy in order to reduce dependence on raw materials and transition from a resource economy to an industrial-resource, diversified economy.

For the first time since Independence, it was decided to create 7 free economic zones at the People's Assembly on December 14, 1992, for the first time on the issue of creating free economic zones in Turkmenistan. They are: Hazar-Ekerem, Baharly-Serdar, Ashgabat-Abadan, Ashgabat-Anau, Mary-Bayramali, Dashoguz-Airport, Turkmenabat-Seydi zones. Also, on March 5, 1995, Ashgabat-Airport, on June

14, 1995, Guneshli Turkmenistan, and in May 1996, the decision was made to establish free economic zones in the Serakhs district of Ahal province. In addition to the above, some textile enterprises in Turkmenistan have been awarded the status of economic zone of free trade in accordance with the Resolution of the Ministry of Textile Industry of Turkmenistan dated May 16, 1995. In addition, in order to promote tourism, it was decided to create the Awaza (or 'Avaza') National Tourist Zone in June 2007. According to the project, the total length of this tourist zone is 16 km. and its general construction was intended to be carried out in 3 phases. Construction companies such as the world-famous Buig, Graniti Koza, Sehil, Ichkale, Engin, Itera, Persian Energy, Polimex are involved in the construction of the Awaza National Tourist Zone. A total of \$ 4 billion is expected to be invested in the project.

The creation of these zones allows to attract foreign investment and develop the economy of Turkmenistan. The total area of allotted land for the purpose of creating free economic zones in Turkmenistan is 600 thousand ha. (Excluding the Awaza National Tourist Zone). The economic and geographical conditions of these zones allow entrepreneurs to develop a variety of industries. Those zones are located close to railways and highways, water, electricity, many areas of the workforce, and close to economic centers. The adoption of the laws on foreign economic wages on May 19, 1993, on foreign investment in Turkmenistan, and on October 8, 1993, on the economic zones of free enterprise, strengthened the legal framework of this work and made every economic allowed to set goals for the development of the zone. In this regard, the textbook of the President of Turkmenistan "State regulation of sustainable economic and economic development of Turkmenistan" states that "Enterprises with foreign investments today are based on the best laws, regulations and guidelines in force in our country." This document defines the procedures for ensuring the correct and efficient operation of enterprises, as well as the management of all sectors and mechanisms of production. Such important documents include: "On Investment Activity", "On Foreign Investment", "On Foreign Concessions", "On Entrepreneurship", "On Hydrocarbon Resources", "On State Support for Private Producers and Laws of Turkmenistan "On State Support of Small and Medium Enterprises", "On Tourism", "On Insurance of Certain Activities", "On Foreign Economic Activity", "On the Economic Zone of Free Entrepreneurship", "On Land" of Turkmenistan. On the other hand there is a common

law, Tax Code of Turkmenistan and so on. They include the procedure for placing foreign capital in the objectives of business, the rights, obligations and responsibilities of the parties, as well as the rules, amount and timing of their payment, and so on. Long-term financing has been set up in the country on preferential terms in favor of entrepreneurship. The Law of Turkmenistan "On State Support of Small and Medium Enterprises" has been adopted

1.2 Current Policy on FEZs

What are the favorable conditions created in the economic zones of free trade under the Law "On Economic Zones of Free Trade" in the territory of Turkmenistan?

1. In accordance with the special tax regime operating in the territories of the Free Economic Zones (FEZs), enterprises operating within the FTZs of Turkmenistan are fully exempt from income tax for the first 3 years of the operating period, with the last 3 years being subject to foreign direct interest. In the case of excess, the income tax is reduced by 50% and by 30% over the last 10 years. In the first 5 years of the business period, businesses operating within the zone are reduced by 50%, and the income tax is reduced by 50%.

Investing in facilities that produce export-oriented products and state-of-the-art technologies is completely tax-exempt. Land tax is also preferentially paid, the enterprise is completely exempted from renting for the first 3 years of its working life, 50% is reduced if the share of the foreign capital in the charter capital exceeds 30% and 20% from the legal and physical entities of Turkmenistan.

2. The rights of foreign investment enterprises are protected

3. A simplified procedure is used in both export and import operations. For example, the import of goods (services) of the economic zone is carried out without a quotation and license.

4. The operation of farms is carried out on the basis of self-financing, including foreign currency financing.

5. The banks of the zone shall have the right to open manat and currency accounts for legal and physical entities of Turkmenistan and foreign states.

6. The free tariff rules apply to all types of goods and services within the zone.

7. Employees and specialists of enterprises and organizations of different regions of the country can voluntarily work in enterprises and organizations of FEZs on a voluntary basis.

These zones open wide avenues for entrepreneurship and foreign investment. In free economic zones, various types of enterprises are allowed to engage in any type of business that is not legally prohibited. These zones create a potential barrier to the establishment of enterprises owned entirely by foreign investors. In order to get things done quickly, the state provides benefits for opening businesses and doing business. Businesses, entrepreneurs buy water, electricity, gas at a discounted price for up to 3 years. The scope of the program for the creation of free economic zones is also expected to help small businesses. According to it, state-owned development funds provide loans to individuals and joint-stock companies that want to set up their own businesses. The economic relations of enterprises located in the economic zones of free enterprise are built on a contractual basis. There is a special customs regime within the economic zone of free trade. This provision provides for exemption from the payment of customs duties for goods and property imported into the territory of the zone and exported from the territory of the zone. When opened a new FEZ according to the normative legal acts of Turkmenistan should be granted 40-year term under the terms of the enlargement (Turkmenistanyň ykdysadyýeti kitaby)

1.3 Consultant Project Problem

First, this study is aimed at focusing on FEZs as a source of economic development. At the same time, a case study of specific FEZ is considered from an economic point of view, and the purpose of the study is to try to convey potential advantages of FEZs in Turkmenistan through their evaluation and improved performance related to international standards for FEZs.

In this regard, identification of current status and key problems of FEZs in Turkmenistan will be main factors for the project to evaluate the performance of FEZs in Turkmenistan and their contribution to economic development.

Although there are eleven FEZs in Turkmenistan, these FEZs have not been successful in drawing increased economic activity, to some extent because of such issues as the lack of taking independently the business decisions of firms located in the zones and insufficient provision of financing for FEZ infrastructure. Therefore, this project aims to evaluate FEZs in Turkmenistan based on the policy and strategy of FEZs and suggest improvements based on international standards and best practices for SEZ

1.4 Project Objective

The object of the study was put after deep consideration as the economic impact of FEZ on development. The purpose of this project is to identify the significance of FEZs for the economic development of Turkmenistan. Trying to come to a clear and systematic conclusion the following research tasks are set:

1. Present the concept of FEZ and its role in the context of international best practices.
2. Conduct the case study and analysis of its results.
3. Reveal gaps, identify challenges, and trends.
4. Suggest solutions for the future activities of FEZs in Turkmenistan to strengthen economic development.

1.5 The Concept and Definition of SEZs

This section reviews the literature on strategies for establishment of Free Economic Zones commonly used by Turkmenistan and other developing countries in their pursuit of development.

The zones with economic privileges have been phenomenon in most of the countries in history. While some of them were used to engage greater capacity in

imports-exports and establish an environment for industrial activities, some of them were used to attract and control Foreign Direct Investments to the country.

As free zones existed for many years throughout history, to define it, the term should be wide enough to include all types of zones in history as well as future ones, while keeping its accuracy to exclude zones which don't own required features to be considered as an economic zone (Farole, *Special Economic Zones in Africa*, 2011). Therefore, a modern term "Special Economic Zones" (SEZs) covers almost all variants of economic zones such as Free Trade Zones (FTZs), Export Processing Zones (EPZs), Industrial Parks (IPs) and Multi-Functional Economic Zones. (FIAS, 2008).

Table 1.1

An Overview of Common Types of Special Economic Zones

NAME	DEFINITION
Free Trade Zones	FTZs (also known as commercial-free zones) are fenced-in, duty-free areas, offering warehousing, storage, and distribution facilities for trade, transshipment, and re-export operations.
Export Processing Zones	EPZs are industrial estates aimed primarily at foreign markets. They offer firms free-trade conditions and a liberal regulatory environment. There are in general two types of EPZs: one is a comprehensive type, open to all industries; another is a specialized type, only open for certain specialized sectors/products.
Comprehensive Special Economic Zones	Comprehensive SEZs (also called "Multi-functional Economic Zones") are zones of a large size that have with a mix of different, industrial, service and urban-amenity operations. In some cases, these zones can encompass a whole city or jurisdiction, such as Shenzhen (city) and Hainan (province) in China.
Industrial Parks	Industrial Parks (also called "Industrial Zones") are largely manufacturing-based sites. Some multi-functional ones similar to "Comprehensive Special Economic Zones" (listed above) exist, but usually operate at a smaller scale. The parks normally offer a broad set of incentives and benefits.
Bonded Area	Bonded Areas (also known as "Bonded Warehouses") are specific buildings or other secured areas in which goods may be stored, be manipulated, or may undergo manufacturing operations without payment of duties that would ordinarily be imposed. To some extent, a "bonded area" is similar to a "free trade zone" or "free port." However, the major difference is that a "bonded area" is subject to customs laws and regulations, while a "free trade zone" is exempt from these provisions.
Specialized Zones	Specialized Zones include science/technology parks, petrochemical zones, logistics parks and airport-based zones.
Eco-Industrial Zones or Parks	Eco-industrial zones or parks focus on ecological improvements in terms of reducing waste and improving the environmental performance of firms. They often use an "Industrial symbiosis" concept and green technologies to achieve energy and resource efficiency. Given the severe environmental challenges, an increasing number of countries is embracing this new type of zone.

Source: FIAS (2008), Zheng (2010)

Main principles incorporated in the concept of SEZs are;

- Geographically outlined area which usually secured physically
- Single management and administration
- Special privileges-advantages within a zone
- Separate customs areas and streamlined processes

These zones can be defined by the term “special” containing in itself- which refers to different regulations applied in the zone comparing to the domestic economy. (Farole, 2011)

1.6 Overview of FEZ key factors

One of the many factors influencing the success of these zones is that the establishment of FEZs is a process that requires time and strategic planning on the part of the government and the private sector. Success, or at least results, can only be seen in the long term. Politically, this means that governments must be patient and consistently support zonal programs over long periods of time, which is especially difficult in countries with relatively short political cycles (Farole & Akinci, 2011).

Advantages of FEZ	
Positive effect on the unemployment	As the new investors are attracted to the zone, new employees are required.
Policy for lagging regions	New economic activities create a boost in economy of the lagging regions which also accelerates the development of region.
Extension of FDI level	One of the important aims of FEZs is to attract the foreign investors as well as local investors which cause a flow of foreign currency to the economy.
Clusters	Universities and businesses work together in order to achieve main product quality or the labor quality. This creates an optimal atmosphere for economic development
Encouraging economic activities	The competition in FEZs creates competitive businesses, to produce the highest quality product and add value to the brand. Businesses tend to invest more in innovation activities.
Regional/National added value reputation	Many examples prove that if implemented correctly, FEZs improve value of the region and nations. (Example can be, Shenzhen in China)
Spill over effect	The businesses that operate within the FEZs keen to have more advanced innovation strategies. By research and development activities spreads the knowledge along the other companies in same industry.

Figure 1.1 Advantages of FEZs

Source: Büşra Demirelişçi (2018)

Disadvantages of FEZ	
Long term is needed to see the result	Attracting a new business and creating new economic activities are a process, to see the results takes a time. This can lead to impatience on the government side
Loss in national revenue	As national government offers incentives and special ta conditions in FEZs, it gives away its right to taxes partially or completely.
Increase in national expenditure	Governments are required to invest in infrastructure in order to create an attractive zone for the local and foreign investors. As it takes time to see results, government invest in long term without certain results
Labor abuse	Many countries are dealing with immigrants in many different fields. In labor field immigrants with low expectations, cause economic outcomes such as declining of income rates.
Pollution	Industrialization and inconsiderate usage of technology has been proved to have negative impact on the environment, which is why many countries signed the agreement against the pollution the environment.
Labor standards	Low labor costs can create lower standards in the labor market in FEZs. This in the end will create a negative impact on laborers.

Figure 1.2 Disadvantages of FEZs

Source: Büşra Demirelişçi (2018)

The number of SEZs around the world has increased from 800 in the mid-1990s to over 4000 today. They created about 70 million jobs. Their expansion means that they have taken center stage in the economic development programs of many countries. The governments that make them work tend to succeed in five key areas: (Davis et al, 2019)

Develop an integrated, coherent strategy.

Special Economic Zones which are successfully operated, usually result from detailed analysis of how they will create value for the economy as a whole. The analysis identifies the zone's value proposition to show how it can attract investment in the highly competitive global SEZ environment. Some zones are more productive in design. Those that serve as pure transshipment hubs create little value beyond jobs in the port itself, but if policymakers see transshipment as the backbone of a wider

ecosystem, zones become a different proposition: they must highlight factors such as ease of access to the supply chain, and the ability to attract and develop local talent

Reduce friction and create incentives.

The amount and scope of incentives tend to be directly related to the strength of the value proposition. Some areas have great natural advantages: access to the sea, proximity to major regional economies, pleasant working and living conditions. They require less investment than zones where investors need more persuasion to make a jump.

Attract anchor investors.

Usually, companies called anchor investors are respectively stand at high of supply chain, which engages in ancillary businesses and downstream suppliers. To attract this anchor investor companies, SEZs should create an assured case about matters such as transport links, costs, and infrastructure.

Attract adjacent industries.

Successful zones define the relationship between training providers, suppliers, and related businesses. After anchor investors emerge, these related actors establish a potent ecosystem of mutual interests.

Develop infrastructure and foster a thriving community.

Zones that successfully attract investors focus on creating attractive places to live and work - from careful land management to investment in schools and leisure opportunities.

From a business point of view, it is very important that parties get outcomes, and the long-term period can be disincentive for both investors and politicians. Another outlook is the business environment. Zones have the right to form an optative working environment for employees. There are special regulations and acts for FEZs. As it was indicated earlier, every country has its own laws and rules for FEZs. FEZ employees may not always be covered by national labor.

Economic Development

From the point of view of globalization; the study emphasizes that with the development of technology, the value of physical distances has decreased, and this has eventually shown that economic growth can occur anywhere on Earth without any influence of spatial factors, which is the consequence of globalization; interregional

incomes are becoming more convergent (Ascani et al. al., 2012). Partially agreeing with this statement, the author believes that the globalization process has led to an overload of strategic regions and cities. Urbanization has become an everyday fact that exacerbates regional disparities. Thus, globalization, on the contrary, affects regions, turning them into more divergent units. Business activity rises, economic growth rates become higher, and the cost of production increases in more urbanized regions and cities, which leads to enterprises gravitating to less developed regions to reduce the cost of production.

Attract Foreign Direct Investment

One of the main targets of the SEZ is to attract foreign direct investment. Earlier in the FEZs and their impact on economic development, it was noted that attracting foreign direct investment increases the level of employment at the expense of new local enterprises. When it comes to the impact of FDI on host regions, it is important to emphasize that FDI reduces regional imbalances and enhances the competitiveness of the host region.

The efficient use of resources such as employment, technology and costs creates higher levels of productivity by achieving the goal of increasing the value of results. FEZs also allow investors to avoid taxes, barriers and other tariffs that lead them to trade freer. By avoiding certain taxes, tariffs and barriers, investors can lower production costs. This leads to better working conditions for employees, which motivates them to work more productively. FDI also creates higher wages in the labor market. Through FEZs, investors can also benefit from reduced transport costs and improved technologies.

Create New Employment Opportunities

The influence of the SEZ on the labor market is direct. New jobs lead to optimal production levels. FEZs enable the host country and businesses to improve the quality of the manufacturing process. Due to the efficiency of the production process, factories are more likely to meet consumer expectations. This means higher value for the product, business and SEZ. Closer relationships between customers and businesses hold promise for future demand. This leads to the expansion of the company's activities. Increasing production capacity ultimately requires more employees, and this creates improved and easier access to jobs for the unemployed.

The impact of FEZs on the labor market is direct. New employment leads to an optimal level of production. FEZs allow the host economy and enterprises to have better quality in the production process. Due to the efficiency of the production process, enterprises have a higher chance to meet the expectations of consumers. This means higher value for the product, business, and SEZ. Higher connections between customers and businesses are promising for future demand. This leads to the expansion of the company's activities. Increasing production capacity ultimately requires more employees, and this creates improved and easy access to jobs for the unemployed.

Increasing the Level and Quality of Exports

Thanks to the SEZ, the business potential is growing. Attracting foreign direct investment and local business to the zone creates a higher level of production in the region, which requires not only local, regional and national markets, but also an international market. However, almost all types of zones are oriented towards international markets, with the exception of business zones. Thus, the main idea, when FEZs should be created as an instrument of economic development policy, the main goal of the policy is to increase the level of exports and contribute to the regional and national economy. It is not only the level of export that is important, but also its quality (see Figure 1.1). There are many examples of how rural areas are becoming popular and well-known areas of economic activity through FEZs. The Pearl River Delta in China is a very apt example for this theory. FEZ Shenzhen is one of the FEZs in the Pearl River Delta. It is known for its industrialization process, high export rates and is shown as a success story among other FEZs.

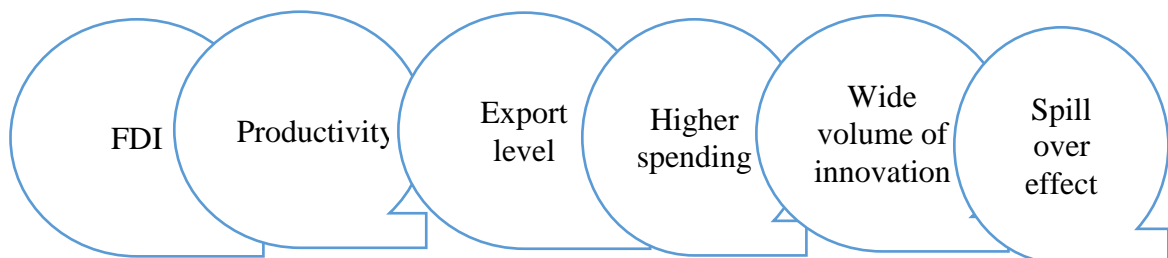


Figure 1.3 Process of creating a higher quality of exports

Source: *The Pearl River Delta, Shenzhen FEZ*

It may be important for policy makers and decision makers to know whether a country gets high market shares from low-quality products or from high-quality products. The creation of developed exports also depends on the quality of products. From this point of view, in order to maintain the demand for their products, producers must maintain it is important to emphasize in this paragraph that improving the quality of exports is a long-term result that is achieved by increasing the level of exports. FEZs in the process of economic development: first, they attract PI, and through PI and other new enterprises, the level of labor productivity in the region increases. If the main market of the zone is international, the export level is growing rapidly. (Bedi, H. 2015)

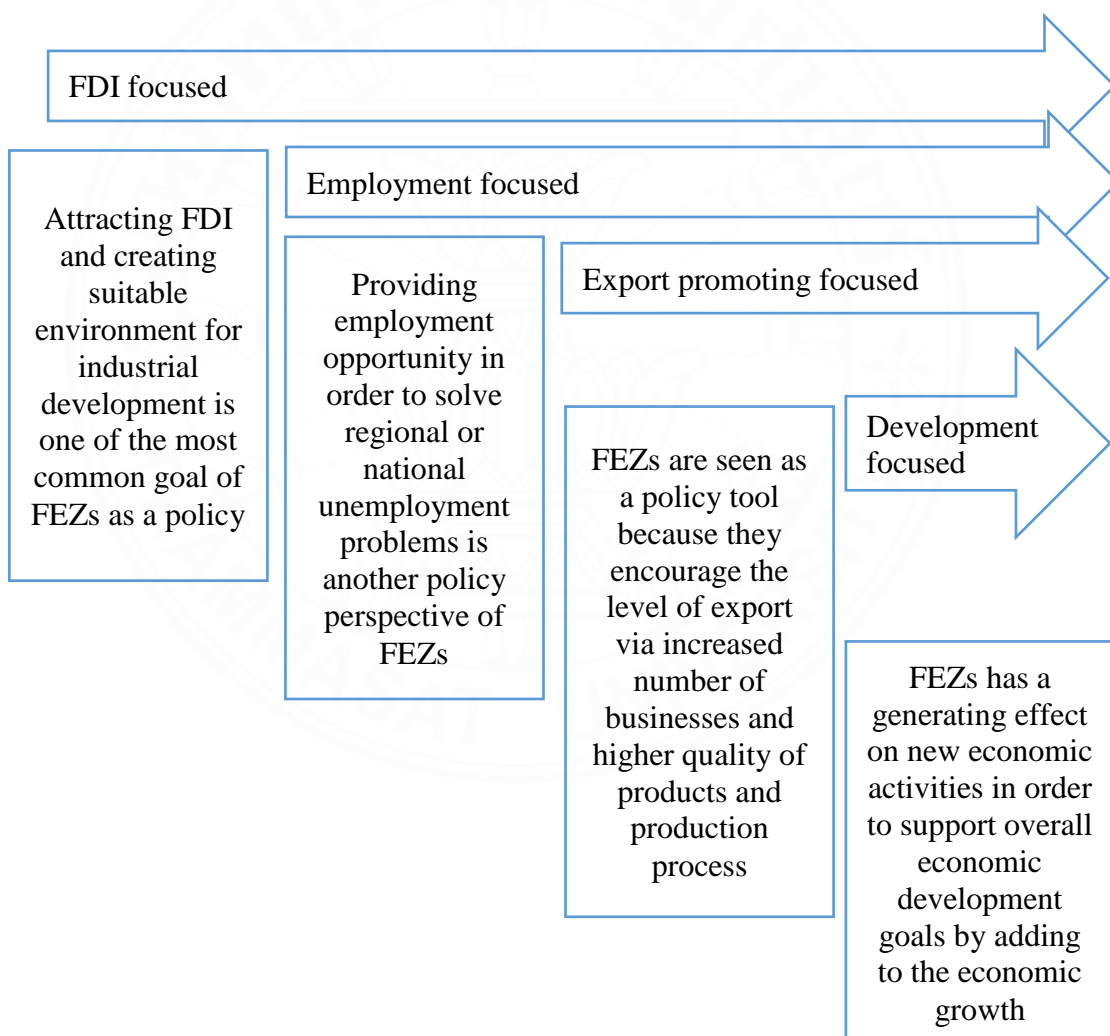


Figure 1.4 The common policy goals when establishing FEZs

Source: Madani (1999); Akinci & Crittle (2008); Farole & Akinci (2011); Zeng (2016)

1.7 FEZs in Turkmenistan

1. Ashgabat-Abadan Export-Industrial Zone - part of the road north of the Ashgabat-Abadan railway line (5 km wide, 30 km long). Developed sectors: construction industry, agro-industrial processing, science and energy-intensive production, production of consumer goods

2. Mary-Bayramali Economic Zone - the highway section between Bayramali and Mary (5 km wide, 25 km long). Industries to be developed: agro-industrial processing, agricultural machinery, energy-efficient products, and consumer products;

3. Caspian-Ekerem Zone - Cheleken Peninsula, Caspian Sea coast from Caspian to Ekereme (width is vertical, 150 km in length along the coast). Developed sectors: Petrochemical industry, fishing and processing, leisure and tourism industry;

4. Dashoguz Airport - A strip of 5 km wide and 12 km long from Dashoguz to Dashoguz Aero Port. Developed sectors: production and processing of agricultural products, labor-intensive industrial production, production of consumer goods, tourism;

5. Seydi-Turkmenabat highway is 1 km wide and 105 km long. Emerging industries: light and food industries, instrumentation and machine building;

6. Baharly-Serdar - 3 km wide and 125 km long northbound and southbound along the Baharly-Serdar road. Industries to be developed: agro-industrial processing, construction industry, recreation, national craftsmanship, production of consumer goods;

7. Ashgabat-Anau - area, located 5 km north of the highway from Ashgabat to Anau. Developed sectors: agro-industrial processing, science, energy-intensive production, production of consumer products;

8. Ashgabat Airport - Territory of S. Turkmenbashi International Aero Port. Developed sectors: tourism, trade, various services.

9. Guneshli Turkmenistan - 5 hectares of long-term use of the Magtymguly Farmers' Association of Ak Bugday Etrap.

10. Zone of Serakhs district of Ahal province - 2 km zone of Serakhs district along the border state of Turkmenistan with the Islamic Republic of Iran.

11. Awaza National Tourist Zone - Awaza is a village located on the north-east coast of the Caspian Sea, 20 km from Turkmenbashi. At present, the area of Awaza has been determined at an area of 1,700 hectares. The list and amount of 90 plots of land to be built in the first place were also approved. Developed sectors: tourism, performance of various services.

Due to various objective and subjective reasons, economic activity in the economic zones of , Serakhs and Guneshli Turkmenistan FEZs has been suspended.



CHAPTER 2

SITUATION OF FREE ECONOMIC ZONES

In this chapter, the situation of FEZs is analyzed in each sub-topic through collecting data from host country through its geographical, historical and economic profiles, to investment climate and tourism sector in the country. Besides this, general patterns of FEZs as instrument of government strategy for economic development are analyzed with its issues.

2.1 Turkmenistan

2.1.1 Geographical Profile

Turkmenistan is the second largest Central Asian Country with its 491,210 km² total area and borders with Uzbekistan to its northeast and north, Kazakhstan by northwest, Iran to the southeast and south, and Afghanistan to the southeast. Despite it shares lengthy border with Caspian sea to the north, Turkmenistan is called as a landlocked country in Central Asia because of Caspian Sea is not an open sea. The largest city is Ashgabat which is a capital of the country. The population of Turkmenistan is around 6 million and the living land in country is equal to 20% of the country. Remaining are is covered with Karakum desert which comprises 80% of the country's total area.

The current area of Turkmenistan has long served as a thoroughfare for many nations and cultures. The city Merv (currently named as Mary) was one of the great cities of the Islamic world and an important stop on the Silk Road.

2.1.2 Historical Profile

In the second half of 19th century, Turkmenistan was divided into three ways among Russian Empire, Uzbek Khanates of Khiva and Bukhara. In 1881, Russian troops captured the strategic Turkmen castle Gokdepe and Ashgabat city, and incorporated country into Russian Turkestan. After the October revolution in Russia and the establishment of Soviet Union, Turkmenistan was given Union Republic status in 1924, and consequently Turkmen Soviet Socialist Republic was formed. During the

next half-century, Turkmenistan played its designed economic role in the Soviet Union, and Moscow controlled the political life of the country. With the onset of crackling of Soviet Union, Turkmenistan's Supreme Soviet declared political and economic independence from Moscow and elected Niyazov as its chairman. Turkmenistan declared its independence after the dissolution of the Soviet Union in 1991, and joined the Commonwealth of Independent States (CIS). After that, Turkmenistan adopted new laws for constitution, and according to these laws Niyazov was elected as first president of new country. Following the independence, many reforms were adopted including introduction of new currency 'manat', and several agreements for cooperation with other countries. The Constitution of Turkmenistan defines the principle of "permanent neutrality" as the basis of the country's foreign policy. The United Nations officially recognized Turkmenistan's neutral status in 1995. After the death of S. Niyazov, G. Berdimuhammedov was appointed as new president of the country and currently (as of 2021) he continues as head of the country.

2.1.3 Economy Profile

Turkmenistan's economy is highly dependent on hydrocarbon resources which's exports account to 25% of country GDP. With its reserves accounting around 10% of total world reserves, Turkmenistan is ranked fourth with its large reserves in the world. Beside this, agricultural sector, where the main item is cotton, accounts to 8% of GDP. More than 80% percent of the country's land mass is covered by the Karakum desert. Even so the majority of the population work in agriculture, principally nomadic cattle raising and intensive agriculture, particularly in cotton cultivation – Turkmenistan is Central Asia's second largest cotton producer. Therefore, to reduce dependency from hydrocarbon resources, diversification with orientation to the market and supportive micro and macroeconomic environment is required. As it is reported on UN Comtrade statistics, while the total export numbers of Turkmenistan was equal to \$10.1 billion in 2018, significant increase was observed in 2019 to \$10.3 billion. However, during the same period, imports fell from \$2.8 billion to \$2.7 billion.

The public sector's dominant role in economic activity and tight administrative controls prevent the development of private sector. Although the government continues to support the rise of private sector's share in economic segment by initiating such processes as accelerating the corporatization and privatization of

state-owned enterprises (SOEs) and improving the business regulatory environment, state-owned monopolies and public sector are still the admirals of economic development and formal labor market. FDI remains limited, apart from hydrocarbon sector (World Bank).

2.2 Investment Climate in Turkmenistan

Turkmenistan regularly takes steps towards to engage more FDI. However, strict monitoring of the economy by state, a lack of transparency, bureaucratic barriers, difficulties in obtaining visa are main factors obstructing foreign investment climate in country.

According to the laws of Turkmenistan, all foreign and local entities functioning in Turkmenistan are obligated to register with Ministry of Finance and Economy's Registration Department. Most foreign investments in Turkmenistan are set and managed by project-specific decrees of the president, which can provide extra privileges not granted by legislation. Therefore, foreign companies awarded with contracts by government usually don't face any issues while registering their operations within country. Foreign companies without contracts granted by government must go through a registration process comprising inter-ministerial commission that consists of industry-specific ministries, law enforcement agencies, Ministry of Foreign Affairs, and the Agency for Protection from Economic Risks, to create a legal entity in Turkmenistan. This commission assesses firms based on their reputation, work experience, financial standing, and perceived legal and political risks.

In spite of the fact that Turkmenistan rectifies its laws regularly to correspond internationally recognized standards, the implementation of investment-related legislation usually ends with fail. The reason for such fails is nontransparent regulatory framework and lack of established rule of law causing serious issues limiting inward investment.

Despite the fact that factors such as failure to uphold private contract law and rising inflation cause significant detriment to the investment climate of the country, one of the most positive features of doing business in Turkmenistan is its political stability.

In accordance with the Law on Foreign Investments, some incentives and privileges are provided to foreign investors. These incentives and privileges include some factors as tax exemptions, land leasing rights, license exemptions, reduced registration fees, and extended visa validity.

A new Law on Free Economic Zones was introduced in Turkmenistan on October 9, 2017. This law provides some incentives and benefits such as simplification of administrative procedures for establishing new ventures, tax exemptions, customs and licensing. According to this Law, following types of zones can be established within territory of Turkmenistan; industrial, commercial, agro-industrial, technical and zones with combined activities specializing in services such as financial, banking and tourism.

Currently there are eleven FEZs in Turkmenistan, but these FEZs haven't been operated in full mode and did not contribute as expected to economic activity. The main reasons for such fail are interference of government in the business decisions of companies located and lack of financial support for infrastructure for FEZs.

2.3 Tourism in Turkmenistan

As it was indicated above, around 80% of land mass is covered by desert, therefore the potential for tourism industry in country is limited. Main attractions for tourists are number of cultural and historical sites remained from Middle Ages, or older relics from ancient kingdom existed in 300 B.C.

Number of visitors are modest at 8000 a year, but it is increasing slowly. Lack of required infrastructure and bureaucratic barriers such issuing visa for foreigners have crippled the tourist industry. However, since the early 2000s the construction of luxury hotels was held in capital city in Ashgabat and the modernization of the Ashgabat airport signified an attempt to reverse this trend. Coastal and mountain resorts are being constructed, and number of hotels in regions is expanding year by year. Beside these, multi-year development programs were adopted by Turkmenistan in various economy sectors with an aim to attract investors.

Turkmenistan established Awaza National Tourist Zone, in 2007, to actively encourage tourism and the development of the region. It awarded some privileges to foreign

and local companies willing to invest in tourist zone in terms of construction of recreational facilities and hotels. Tourist facilities and constructions in Awaza National Tourist Zone are exempted from value-added tax (VAT). Services such as room accommodations, catering offered at zone were also exempt from VAT. As a general rule, investment and tax incentives for the Awaza National Tourist Zone can be negotiated case by case.

2.3.1 Awaza National Tourism Zone

Awaza National Tourism Zone is the first tourism zone development in Turkmenistan. It is located on the east coast of the Caspian Sea, 12 km west of Turkmenbashi. A special feature of zone is that it is identified as ecologically clean zone, characterized by a very breathtaking soft climate and rich natural resources.

In 2007, President of Turkmenistan Gurbanguly Berdimuhamedov has decided to create the Awaza National Tourist Zone in order to create a modern recreation and tourism infrastructure in the country and has launched the implementation of this huge project. Initially, the project aimed to direct more than \$ 1 billion from Turkmenistan alone and \$ 4 billion from foreign investors.

In June 2009, by opening of new facilities with ceremony in the Awaza National Tourist Zone, it was officially announced the establishment of zone. Year after year, the infrastructure of this internationally modern zone was replenished with new facilities such as high-end hotels, cottage towns, health and recreation centers are at the service of guests. Currently, the area of Awaza has been determined at 1,700 hectares. The Government of Turkmenistan intends to make it the business hub in Central Asia and the Caucasus utilizing its preferential business environment, Turkmenistan's political stability and good diplomatic relationships with foreign countries. According to the third phase of the project where it is aimed to make Awaza National Tourist Zone a kind of Turkmen "Las Vegas" with casinos and different entertainment facilities, the area of free zone is aimed to expand to 5,000 hectars. Near the city of Turkmenbashi there is the terminal of the the Turkmenbashi International Seaport.

2.3.1.1 Turkmenbashi International Seaport

Turkmenbashi International Seaport is located at the very important location of east – west corridor, and especially, Awaza Project in the vicinity of the port is implemented, which is designated as FEZ which core will be a tourist zone, and also as a national project to lead the economic development vision of Turkmenistan. . Turkmenbashi port, as a part of the free zone, is expected to support Awaza National Tourism Zone development by providing safe, reliable and comfortable Ro-PAX ferry service.

A new International Seaport was inaugurated on May 2, 2018 in Turkmenbashi. The total area of the port is approximately 150 hectares. The total length of the dock is 20 meters and 3,600 meters, allowing several cargo and passenger ships to enter, depart and serve the port at the same time. The port includes passenger and ferry terminals, container terminals, general and emergency cargo terminals. In addition to the ship's hydraulic structures, a number of coastal infrastructure facilities have been built at the port, including transport support: highways with a total length of about 4,000 meters and railway crossings of about 30,000 meters.

The total capacity of the port is on average about 17 million tons of cargo per year, excluding petroleum products, but including 75 thousand trucks, 300 thousand passengers, 4 million tons of general cargo, 3 million tons of bulk, and at the same time can receive 17 vessels. At present, however the volume of cargoes handled at Turkmenbashi Port is rather small despite its extraordinarily favorable geographical condition.

2.4 FEZ Strategies for Economic Development in Turkmenistan

The economy of Turkmenistan has been rapidly developed for its rich hydrocarbon resources. Although it is not a matter of discussion that hydrocarbon will continue being the main industry of country, Turkmenistan government plans to reduce economic dependence to hydrocarbon resources and accelerate the economic growth by diversifying its industry. As it was previously indicated, Turkmenistan is landlocked country as other Central Asian countries, but the city Turkmenbashi is exception as it

shares a long border with Caspian Sea. Despite the Caspian Sea is not an open sea, it plays an important role to make Turkmenistan a strategic corridor between East and West. In this manner, Turkmenbashi city with its Awaza National Tourist Zone and Turkmenbashi International Seaport (as a part of free zone) is expected to play a role of admirer of the diversification fleet of the country's industry. Turkmenbashi Port is located at the very important location of east – west corridor, and especially, Awaza Project in the vicinity of the port is implemented, which is designated as FEZ, and also as a national project to lead the economic development vision of Turkmenistan. Securing efficient logistics play important role to reach the goal for industrial development. Therefore, starting with the improvement of its existing functions, they should be diversified as well. The port must be a logistic center of the region which can handle all types of cargoes.

Furthermore, the port should contribute to development of tourism which is one of the prospective industries in Turkmenistan. Though the tourism industry remains at a very primitive level, and it is frequently a headache for foreign travelers, Turkmenistan would be able to attract a large number of tourists for its history, culture, tradition and nature if some improvements were made. In this manner, Turkmenbashi International Seaport must provide safe and comfortable traveling conditions for those tourists.

The harmonization of the free zone with the economic development plan of the country is particularly crucial. Turkmenbashi has been the gateway to Central Asia. It is geographically apparent, and many historical facts support it. The links on the Caspian Sea from Turkmenistan comprised a part of the Great Silk Way and has been transporting people and goods since antiquity. Aleksander II built a fort in Ufra in Turkmenbashi to advance to Central Asia. In 1888 the origin of Central Asian Railway was constructed there. Today Turkmenbashi port plays a role of gateway to Turkmenistan as well as other Central Asian countries, China and Afghanistan. The rail ferries arriving at Turkmenbashi port carry transit cargoes and irrigate landlocked countries

Turkmenistan with its political stability as a neutral nation recognized by the United-Nations possesses huge potential to attract a large amount of transit cargoes. Therefore it is important that Turkmenbashi Port be developed fully utilizing its

potential as a logistics hub. Together with the strengthening the function of the port, improvement of overall efficiency of the nation's logistics system is required.

The project forecasts the growth of traffic volume by the increase of tourists and business travelers generated by the Awaza National Tourism Zone Project. The data on forecasted or even planned numbers of visitors to Awaza is not available, therefore it can be estimated the numbers of visitors from the capacity of hotels in Awaza. According to the State Committee for Awaza Development, planned accommodation in Awaza in 2020 was 150,000. Assuming an average stay of 14 days and average occupancy of 50%, numbers of visitors are calculated as:

$150,000 \times 365 / 14 \times 0.5 = 1,950,000$ per year. The Awaza Committee explains that the major market is Caspian littoral nations, the Caucasus and Central Asia, but detailed data is not available.

Turkmenistan is located at the crossroads of international roads and is in a very geographically favorable position. In this regard, modern roads, bridges, international airports, railway stations, seaports are being built in the country in accordance with international standards. All these are aimed to contribute to the reconstruction of the Great Silk Road in modern conditions, contributing to the development of tourism, cultural cooperation, trade and economic relations. The term logistics is very popular today in terms of ensuring the harmonious development of the transport system. In international cooperation, the term logistics is defined as the definition of complex activities such as coordinating, systematizing the transportation of a product, product, or service management system by vehicle. Thus, the goal of logistics is to make the product available to the public from manufacturers to manufacturers as soon as possible and safely. (Multimodal ugur: Gruziya ilkinji yuk otlusy bardy, 2020)

The idea of restoring the Great Silk Road, which had been initiated by the Turkmenistan government, was based on Turkmenistan's transport strategy. This road has traversed the borders of Central Asia for centuries. In modern conditions, this transcontinental route is aimed at helping Turkmenistan and other countries in the region to realize their enormous economic potential by joining the world transport system.

The Caspian region has a special place in the implementation of Turkmenistan's transit and transport potential. There are many opportunities for efficient use of all types of vehicles. As a result, the country is creating a major logistics center that can coordinate freight flows using sea, road, rail and air transport. In this regard, the launch of the Kazakhstan-Turkmenistan-Iran railway can be cited as an example. Its longest, about 700 kilometers, passes through the country.



Figure 2.1 Kazakhstan-Turkmenistan-Iran railway

Source: Aziýa halkara demir ýolunyň türkmen böleginiň gurnama işleri tamamlandy 2016

On May 2, 2018, a new International Seaport was inaugurated in Turkmenbashi. The port has the capacity to handle 300,000 passengers, 75,000 trucks a year, and process 400,000 containers. The capacity of the new port is 17 million tons, excluding oil products. Of course, the decision to build the port has to do with domestic demand first. West of Turkmenistan, Caspian Sea coast is one of the fastest growing regions of our country. This may create a need for using FTZ there.

The Turkmen government emphasized that Turkmenistan was confident that the global transport strategy of the 21st century was a strategy for the development of states and regions, a combination of geographical and structural, technical and technological capabilities. Coming to major international and regional seas, rivers, automobile roads, railways and air hubs, the convenient combination of these and the use of the advantages of each is the future of a unified transport system. By developing an approach to these issues, Turkmenistan seeks to make full use of its resources for the common good.

Civil aviation of the country, which has gained a new impetus in its development in recent years, plays an important role in the successful implementation of integrated programs and plans in this area. In September 2016, a new Ashgabat International Airport was put into operation with the participation of President Gurbanguly Berdimuhamedov. Its main and secondary passenger terminals are capable of serving more than 17 million passengers a year, or about 2,000 per hour. The cargo terminal is capable of receiving and sending 200,000 tons of cargo. (Paýtagtymyzyň howa menziliniň halkara abraýy ýokarlanýar 2016).

International airport is FEZ itself, so it is available to use transport vehicles there. In order to improve cargo activities recently they bought a new plane “Boing 777-200F” model. This is also helps to attract foreign investors to carry their products with that plane and also to store their products in FEZ of Turkmenistan. (All-cargo aircraft Boeing 777-200F replenishes the aircraft fleet of the “Türkmenhowaýollary” Agency.2020).

An international conference of transport ministers of Turkmenistan, Azerbaijan, the Republic of Georgia, the Republic of Turkey and the Islamic Republic of Afghanistan on the Transit and Transport Cooperation Agreement (Lapis Lazuli Agreement) was held on November 28 at the Awaza National Tourist Convention Center.

The meeting, held within the framework of the tripartite agreement, has become the next step on the road towards the creation of the international transport corridor Lazurit. This transition will help to strengthen effective relations in a wide geo-economic space, including Central and South Asia, the Caspian and Black Seas, and the Mediterranean.

Participants of the delegation to the Awaza National Tourist Zone noted that the advantages of the geographical situation of Turkmenistan, located in the center of the main roads of the continent, allow our country to effectively implement national transport to ensure Eurasian relations.

Now these areas are very clear in the logistics strategy of Turkmen government. In recent years, Turkmenistan has carried out remarkable projects to build a new international airport of the capital, the first line of the Turkmenistan-Afghanistan-Tajikistan railway - the Kerki-Imamnazar-Akina route, the International Sea Port in Turkmenbashi, and the Ashgabat-Turkmenbashi gas station.

The year 2018, under the slogan "Turkmenistan - the heart of the Great Silk Road", has been nurtured by large-scale transport projects. In February, the Serhetabat-Turgundy railway, which is part of the Lazurit transit corridor, was commissioned. The opening ceremony was attended by President of Turkmenistan, the Prime Minister of the Islamic Republic of Pakistan, the President of the Islamic Republic of Afghanistan, and the Minister of State for Foreign Affairs of the Republic of India.

Through the exhibition organized at the Awaza National Tourist Convention Center, the forum participants got acquainted with the main stages of the creation of the Lazurit Passage and the transport routes of the participating countries.

This project has not fully completed yet but in the future according to authors' opinion might have positive impact of local FTZs to carry out. It is a great chance to develop FTZs in Turkmenistan.

There is only one line connecting between Turkmenistan and Afghanistan. Since at present study on railway line between Mazar-e sharif and Herat in Afghanistan is in progress and it is expected to increase demand for physical distribution between Afghanistan and Turkmenistan and others, it will be required to construct a line from Atamurat to the line between Mazar-e sharif and Herat. It has not been determined that which track gauge should be adopted and bogie exchange facilities at the border between countries may be required.



Figure 2.2 LAPIS-LAZULI Transit

Source: Ýurdumda ulag-logistika syýasaty dabaralanýar 2019

The main project in transportation is Turkmenbashi sea port. Lapis Lazuli project is crossing this port which makes that place to use as FTZs perfectly. On the other hand such project like CAREC CORRIDOR is also beneficial to provide FTZs in Turkmenistan. Because 3 out of 6 CAREC corridors are crossing Turkmenistan which helps to use them.

CAREC corridors, spanning the 11 participating countries — Turkmenistan, Kazakhstan, Mongolia, the People’s Republic of China (PRC), Azerbaijan, Georgia, Afghanistan, Tajikistan, the Kyrgyz Republic, Uzbekistan, and Pakistan.

According to CPMM report 2018 “the data for 2018 showed that Turkmenistan serves as an important transit country for Iran–Uzbekistan cargo movements, with BCPs at Serakhs and Farap revealing high-volume traffic. However, road border crossing continues to deteriorate, largely due to time spent waiting, customs controls, and various inspection activities”. At the same time Serakhs is a FEZ attracts investors.

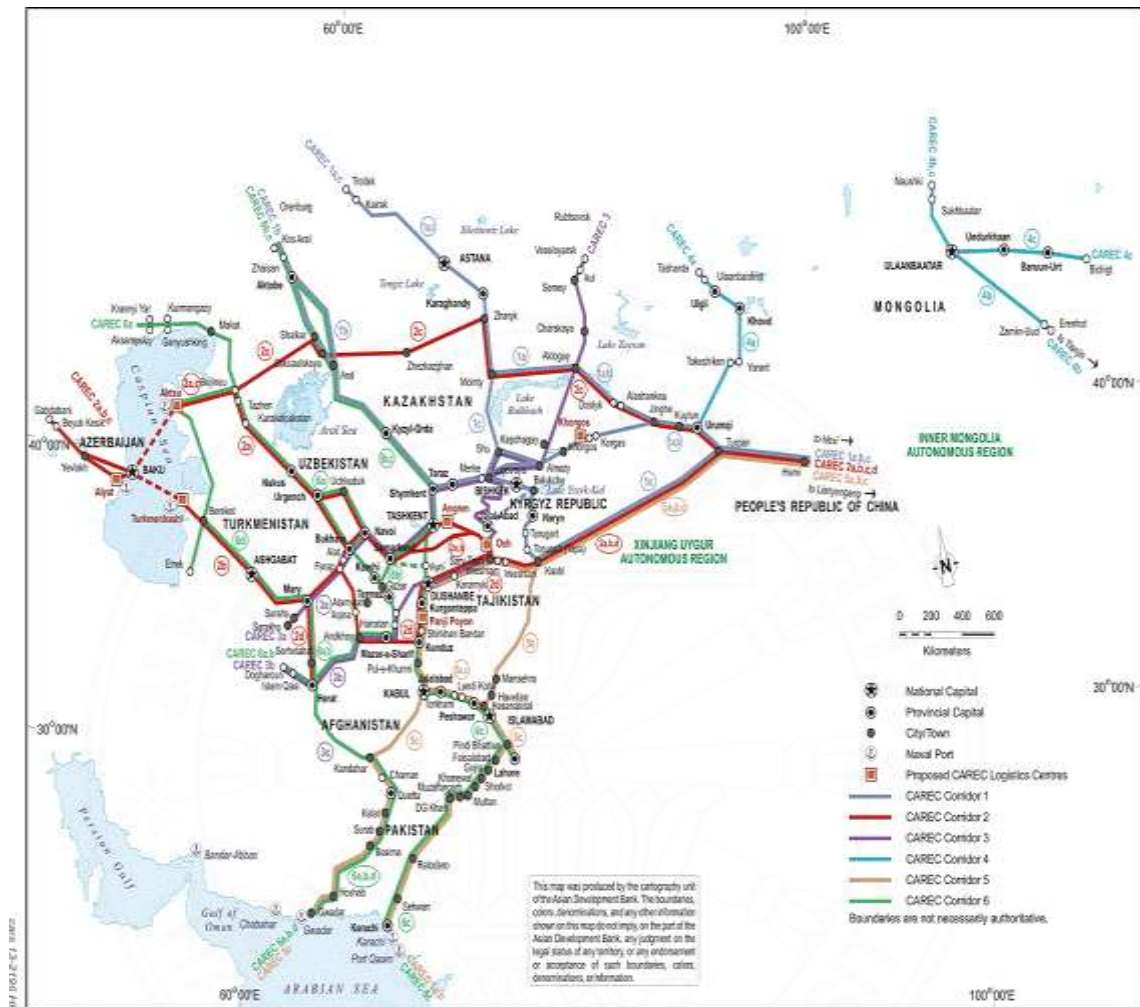


Figure 2.3 CAREC 6 Corridors

Source: Türkmenistan halkara ulag-Üstaşyr geçelgelerini döretmegiň başyn başlaýjy 2018

Central Asia-Middle East (Uzbekistan-Turkmenistan-Iran-Oman) railway is on process but not completed yet. After finishing this project, if it will work properly it will be beneficial to FEZs of Turkmenistan, as this project links Turkmenistan with Middle East countries such as Saudi Arabia and Egypt and so on. Since construction of the bridge across Amu Darya River between Atamurat and Kerkichi was completed in 2009 and the line Turkmenabat – Atamurat has been connected to the unconnected line which is located at the part of Turkmenistan, it has been possible for Turkmenistan

railway to operate their trains on the unconnected line not through Uzbekistan territory. As the result, it is expected that transport volume between Turkmenistan and Iran by railway will be increased and it is important to construct short-cut line, Atamurat – Sarakhs. The length of Atamurat to Tagtabazar is approximately 300km and the length of Tagtabazar to Sarakhs is approximately 150km. The total length of the line is approximately 450km.



Figure 2.4 Central Asia-Middle East (Uzbekistan-Turkmenistan-Iran-Oman) railway

Source: Nexus Expedition Route: Uzbekistan – Turkmenistan – Iran and more... 2015

CHAPTER 3

METHODOLOGY

The Chapter discusses the qualitative approach to empirical research and its research methods along with its research strategy, design, and analysis of research results.

In terms of analysis of scientific literature, an analytical research method is used in this project to collect theoretical information. To create a reliable and solid study, the project remained significantly within the theoretical framework, keeping up with the data that is most reliable and close to the date of the study. Although in some cases, the lack of resources prompted the project to use information from older studies.

For empirical research, mixed methods of quantitative and qualitative strategies is necessary. The methods of secondary data analysis and descriptive statistics are used for quantitative approach. Qualitative research has been selected in order to give an understanding of the fundamental reasons and motivations of FEZs in Turkmenistan and their impact on the economic development of the host region. Through qualitative research, the project seeks to give an idea of the circumstances and issues of SEZ implementation in Turkmenistan and produce ideas for quantitative research. Qualitative research is also used to understand the reasons for the current situation of FEZs in Turkmenistan, as well as its interaction with other regional actors. Qualitative research is also useful for describing the numerical data obtained by quantitative research, which is the key root for choosing mixed research methods from the very beginning of the study. Firstly, the data was collected on country and specific FEZ for case study from related sources. This part is crucial for grasping the current situation in the FEZ of Turkmenistan.

The results of this study complement the complex and narrow literature by ensuring empirical data through case study on FEZs in Turkmenistan. In addition, the study was intended to supplement the theoretical literature by explaining the complexities of the terms discussed in the first section: free economic zones, special economic zones, free trade zones, export processing zones, and free industrial zones. This study focuses not only on FEZs in Turkmenistan, but also on the concept of FEZs,

the process of their historical assessment and structure. Therefore, this study can become a reference point for future researchers and advocates interested in this field. This study focuses on Turkmenistan and the relationship of economic development with FEZs in Turkmenistan. Through this study, an author seeks to understand the systematic understanding of FEZs and their impact on the economic development of host country/region. The project considers the FEZ as a source of economic development and tries to better understand the FEZ tools that contribute to the development of Turkmenistan. The main reason for preferring this topic is, as mentioned earlier, the opinion that each new economic activity has an impact on the economic development of the region. Thus, by researching FEZs, the project seeks to clarify the relationship between FEZs and economic development and create a reliable source for future research or projects. In addition, the study explains the policy of Turkmenistan's FEZs and their relationship with development entities. The study is also an informative guide for public policy, as it provides insight into FEZs and their interaction level with public policy actors. The author believes that it can be used as a context for public policy actors who are engaged in such goals as stimulating development in their regions through new economic activities or creating a more attractive region for FDI, as well as potential SEZ investors.

3.1 Case study approach

For a case study, determined context or circumstance in which it is relevant, when the simple research question needed to be answered, features either “how” or “why” as a concept of significance and the researcher does not have control over the situation that is analyzed (Yin, 2003). From research methods, a case study can be categorized as qualitative method, in which in depth information on a specific process, event or activity is collected by researcher using multiple sources. Qualitative research, such as a case study, focuses on gathering open-ended, prominent data with a goal of elaborating themes from data and explicating the signification of it (Creswell, 2003).

There are two main factors composing the technical definition of the case study – case study’s scope and procedure of data collection and analysis (Yin, 2003). For the scope of the case study, it is an in-depth inquiry of a specific situation where

clear border between the phenomenon and context doesn't exist. The procedure of data collection and analysis focuses on investigation of the research, where a case study typically relies on various sources of facts and records which are necessary for convergence in the form of triangulation and thus rely on a predetermined theoretical framework for driving data collection, resulting in a holistic result (Yin, 2003).

The utmost flaw in the case study approach is the issue of transferability, where critics argue, that single case studies do not give enough basis for generalizing results. However, single case studies can still be generalized using replication logic, where the theory is applied and tested in a situation similar to the one described in the case study. (Yin, 2003)

3.2 Case study of Awaza National Tourist Zone

Since FEZs in Turkmenistan are located in various places and their number is relatively large, the specific FEZ that the study is focused on is determined. The SEZ for case study is selected to collect data on it according to its socio-economic impact status. A targeted sampling strategy was selected for the case study. This makes it useful, since there are many types of SEZs, the project works on the specific SEZ and exactly on Awaza National Tourist Zone since believes by approaching case study based on this FEZ can bring clear understanding on impact of FEZs in Turkmenistan to economic development.

The main motive for choosing Awaza National Tourist Zone and particularly Turkmenbashi International Seaport, as a part of Awaza National Tourist Zone can be expressed as follows: for the correct solution of the research task, the targeted SEZ should be chosen from FEZs with the potential highest impact on economic development of the country and carry related information about it. Another reason is that in this case, data and statistics on this FEZ can be clear and informative to conduct analysis.

3.3 Research strategy and design

The study is aimed to review and improve the FEZ strategy on the main topic for future policy-related activities as well as future researchers. To create this study, the project will take certain steps to create a logical and understandable study. The first step is done as a research topic and starts with the formulation of the research question on impact of FEZs in economic development of Turkmenistan. After that, review of the literature is being conducted for the novelty of the research. This step is important in order to understand the value of the topic in literature, as well as to contribute to the literature through the creation of a unique work. Third stage is to select the appropriate FEZ for case study, create the main research plan, and decide on the methodological requirements for the research. The methodology of this independent study is content analysis. The next stage is to create a quantitative study using to collect data on selected country as well as specific FEZ (Awaza National Tourist Zone) by taking in consideration the advantages / disadvantages (Table 3.1), policy assessment in context of best practices (Table 3.2), and then use descriptive statistics to analyze the collected data. The next step is to create a qualitative study to collect the data from the case study, and then use categorization and interpretation to analyze the collected data. Finally, a study is created using all the data collected at these stages. This project is aimed at filling gaps in the literature.

3.4 Policy Assessment and Advantages / Disadvantages

There is a close relationship between economic development and institutions (Acemoglu et al, 2004, 2008). In countries with institutions resilient to removing fences to foreign investment and trade, SEZs propose a tool to provide opportunities in an area largely insulated from the national institutions' pressures. Therefore, in this project static institutional approach of policy assessment (Table 3.2) with combination of rating for advantages and disadvantages of Awaza National Tourist Zone reviewed from the literature (Table 3.1) is used to analyze the success and failure factors for specific FEZs and lately for overall in general. While this rating for advantages represents directly proportion to Awaza National Tourism Zone as 1.0 =

'Extensive', 0.5='Limited', and 0.0='Not available', the inverse proportion is applied to assess the disadvantage factors of the zone and rated as 1.0 = 'Major issue', 0.5='Minor issue', and 0.0='Not an issue'.

Table 3.1

The Rating of Advantages and Disadvantages of Awaza National Tourist Zone

Advantages of FEZs	Rating 1.0 = extensive 0.5 = limited 0.0 = not available	Disadvantages of FEZs	Rating 1.0 = major issue 0.5 = minor issue 0.0 = not an issue
Positive effect on the unemployment	1.0	Long term is needed to see the result	1.0
Policy for lagging regions	1.0	Loss in national revenue	0.0
Extension of FDI level	0.5	Increase in national expenditure	0.5
Clusters	0.0	Labor abuse	0.0
Encouraging economic activities	0.5	Pollution	0.5
Regional/National value-added reputation	1.0	Labor standards	0.5
Spillover effect	0.5		

Source: Author's conducted based on literature research

An approach in terms of static institutional differs as 'good institutions' and 'bad institutions'. Good ones promote the economic development by providing economic freedom and protecting property rights. Good institutions a offered to test by SEZs quickly and taking into account to not disturbing wider economy. After it is used

throughout an economy, SEZs lose pertinence. Thus, they stand as ‘second best tool’. This sight is endorsed by orthodox and heterodox approaches.

The orthodox approach sees SEZs as surrounded portion of a territory that promote economic growth and trade by lifting barriers to free market. In this type of approach, employment generation has favorable impacts for income, however there are few – if any – indirect impacts are available as well without forward or backward links with remained economy.

The heterodox approach views SEZs as enclaves that promote industrialization with ‘export-based’ strategy under open formation. The role of the state in economic development is underlined at the school of this approach. (Amsden 1989, 2001; Wade 1990). They argue that economies that are in developing mode face a chronic incapable institutional actor — thus creating ‘production and market failures’. The heterodox approach views SEZs as an instrument to come through these institutional limitations and restrictions. Even though the state economies support their industrialization as ‘export-oriented’ as the part of their strategy for development, ongoing strategic interventions may tackle market failures and production.



Table 3.2

Analytical Framework on SEZ Outcomes and Success Factors in terms of Static Institutional Approach

Static institutional approach		
Theoretical approach	Development outcomes	Success factors
1. Orthodox approach • Overcoming tariff distortions and promoting exports	Direct effects • Trade promotion • Foreign exchange earnings • Employment generation • Income generation • Transition to a free economy Indirect effects • Indirect income generation through demand created for domestic products	Direct effects • Trade promotion • Foreign exchange earnings • Employment generation • Income generation • Transition to a free economy Indirect effects • Indirect income generation through demand created for domestic products
2. Heterodox approach • Attracting offshoring and promoting industrialization	Direct effect: Attracting FDI Indirect Effects • FDI generated spillover effects • Technology transfer • Skills development • Technology spillovers • Catalytic effect on exports	• International economic situation, and multilateral and bilateral agreements Macroclimate • Macro policy framework, exchange rate policies, market size, trade policy tools, resource availability, political and economic stability Mesoclimate • Regional economic infrastructure, export infrastructure, availability of labor, labor laws of the region, and regional governance Microclimate • Legal framework, incentive package, zone infrastructure and zone administration

Source: Acemoglu et al (2004)

CHAPTER 4

ANALYSIS AND DISCUSSION

In this chapter, the situation of FEZs is analyzed in each sub-topic through collecting data from host country through its geographical, historical and economic profiles, to investment climate and tourism sector in the country. Besides this, general patterns of FEZs as instrument of government strategy for economic development are analyzed with its issues.

For SEZs to be successful, they must establish strong backward and forward linkages with the overall economy. Synchronization between policy approaches and understanding success factors and development outcomes are critical. Therefore, a case study is analyzed based on the success or failure factors compared with international standards and best practices while taking in the consideration of PESTEL and SWOT circumstances of the country indicated in Chapter 2. In this chapter, the comparison of international standards and Awaza National Tourist Zone is evaluated and rated as 1.0 = 'Present', 0.5='Partially', and 0.0='Not present' (Table 4.1). While this rating represents the impact of success factors directly proportional to Awaza National Tourism Zone, the inverse proportion is applied to assess the failure factors to the zone.

Table 4.1

The Rating of Success and Failure Factors Affecting Awaza National Tourist Zone.

Success Factors	Rating	Failure Factors	Rating
Fiscal incentives	1.0	Wrong positioning	1.0
Non-fiscal incentives	0.5	Industrial islands	0.0
Low-cost	1.0	Land uses	0.0
Low-wage labor	0.5	Lack of localized strategy	0.5
Strategic location and multimodal connections	1.0		
Isolation from the oft-dysfunctional institutions	0.5		
1.0 = 'Present', 0.5='Partially', and 0.0='Not present'			

Source: Author's conducted based on comparative analysis of international standards and Awaza National Tourist Zone

4.1 Success Factors

FDI and export performance are usual benchmarks which are used in measuring the impact of SEZ to the economic development of the country or region. Policies embedded in SEZs such as economic growth or job creation are all associated with FDI and export performance of the SEZs. Therefore, efforts to assess the impact of SEZs on these two factors can be done with focus on international standards and best practices. Further, the institutional framework and governance structure have a significant impact on the success and nationwide impact of SEZs. Certainly, the impact of SEZs to the economic development of the country and its ability to attract investment depends on creating incentives and enabling environment for institutions taking into account concrete facts, conditions and goals. Profitability and competitiveness can be intensified through the availability of factors of incentives and endowment. However, there are six key factors to identify the success of a SEZ (Aggarwal A, 2015):

4.1.1 Fiscal incentives

Fiscal incentives may be required to attract investment in SEZs. These duty-free imports of intermediate inputs and raw materials, as well as income tax exemptions and capital goods are main examples for it. It can directly diminish production and export expenses. However, the empirical evidence brings up queries about the tax incentives' value: economies feel obligated to offer them as expected, but other institutional factors are much more influential. Awaza National Tourist Zone is a highly important zone for a Turkmen government, and therefore, according to 'Resolution in Awaza National Tourist Zone', tax incentives indicated on Law of Turkmenistan "On Free Economic Zones" are fully provided within a free zone. However, in practice it is observed that the laws are not applied at all by respective bodies and institutions, and due to that concerns on return on investment for potential investors remain crucial.

4.1.2 Non-fiscal incentives

Non-fiscal incentives accelerate the process of making decision, optimize day-to-day operations, and support to establish an enabling environment. For example, a customs regime which is investor-friendly means that entrepreneurs are exempted from usual checks on cargo (both exports and imports). By easing standards for labor, governments can assist the decrease of labor market rigidities that can affect performance of labor. But they can also produce issues down the road, as weak workplace standards can scare off buyers. However, in Awaza Tourist Zone, factors such as the bureaucracy barriers, corruption, lack of educated labor prevents such operations' fast track and again it threatens potential investors. Therefore, institutional effectiveness - robust judicial systems, adequate security - and the use of international best practice (eg in Dubai and Singapore) play an important role in attracting investors.

4.1.3 Low-cost

Low-cost manufacturing sites, built-up manufacturing space, subsidized land rents, low electricity and other utilities costs help keep costs down. Possibly, the main attractiveness of free economic zones in Turkmenistan is low-cost of above-indicated utilities and services. Therefore, Awaza National Zone together and Turkmenbashi International Seaport (as part of free zone) should use these advantages as promoting attractiveness for investment.

4.1.4 Low-wage labor

A plentiful supply of low-wage labor is critical, in particular, in the early stages of SEZ establishment. Due to economic instability and high inflation in late years, labor wage is extremely low in Awaza Tourist Zone and it helps to save money for tenants and users of the zone. However, this nuance rises the brain-drain of educated labor in seek of higher wages, and results as lack of educated labor.

4.1.5 Strategic location and multimodal connections

Strategic (preferably coastal) location and multimodal connections to major trade routes are critical to the success of the SEZ. Typically, zones located strategically provide investors with easy access to international trade. The vicinity of the SEZs in PRC to the airports and seaports of China, Taipei, and Hong Kong was vital to the success of SEZs in their early stages (World Bank 2009). Jebel Ali Free Zone in Dubai is well served by efficient and spacious airports and seaports with

splendid transport links. In this terms, Awaza Tourist Zone is not an exception. International airport and seaport together with modern roads are built for users, tenants, and tourists of zone to reach the location with ease.

4.1.6 Isolation from the oft-dysfunctional institutions

According to the orthodox approach, it can help if SEZs are isolated from the oft-dysfunctional institutions prevailing in the economy as a whole. They turn to "economic enclaves" where production for export is carried out under conditions of virtually free trade regimes. This view can be applied for Free Economic Zones located at the border lines such as of Turkmenistan. Awaza National Tourist Zone is one of the most important free zones in Turkmenistan. Its area is designed as a small independent town. Hence, the policies and regulations in the zone differs from the Turkmenbashi city's in practice, and therefore, the zone acts independent from policies and regulations of local dysfunctional institutions. Ashgabat-Abadan Export-Industrial Zone's function is mainly concentrated in export and its location (near to the border with Iran) makes it potential zone for this factor.

4.2 Failure Factors

The lack of theoretical understanding of policy approaches to SEZs lies at the core of SEZ failure. The reverse side of success factors and drivers are also probable elements for a failure of special economic zones. Several stand out among them:

4.2.1 Wrong positioning

The position and vision determine the strategies and goals of the SEZ. Over-ambition and lack of enthusiasm are two mistakes that are common when developing a SEZ. These mistakes generally arise due to unrealistic evaluations and estimations of the conditions and prospects of the host location. In addition to the apparent insubstantial ambition of a third or fourth tier city to be an economic center, several stand pointing posers become subtle as the circumstances of change for economic development. For example, various SEZs located in Asia include emerging industries such as computers and software, telecommunications, biopharmaceuticals, or modern equipment manufacturing as a crucial component of their plan in terms of

industry. These desires can be accomplished with a clear technological and industrial development strategy - or they can turn into aspirant cogitation. Wrong positioning also includes ignoring comparative and / or competitive advantage, which can lead to sub-optimal development. Consequently, SEZs can incur significant costs as development and growth stall with investment with low return on. Unfortunately, Awaza Tourist Zone which was built with tremendous plans and dreams, currently provides much lower return on investment than expected. Certainly, geographic location of the free zone and the city is suitable to be economic center of the host country. However, overestimation, unrealistic expectations for the Turkmenbashi city and Awaza National Tourist Zone, and ignorance of potential competitiveness from cities in neighboring countries to Caspian Sea resulted as fail for economic development of the region. Particularly, Turkmenbashi International Seaport, which was expected to be the center of the region for logistics remains almost empty and performs under its capacity. This wrong positioning factor is relevant to all free economic zones in the country, and therefore locations of zones should be reconsidered by related institutions and decision-making mechanisms.

4.2.2 Industrial islands

SEZs should not be projected as industrial islands, in other terms they should not be designed with no concrete plans linking trade and business, and more significantly, without creating the amenities needed to live in the zone. Paradoxically, manufacturing or industrial parks are developing in today's urban economy, in which services are becoming increasingly important. It is difficult and almost impossible to attract a highly skilled workforce, such as the Airbus fleet in Tianjin, China, for industrial park built without residential premises. This confines growth and production. The same situation is observed in most of free economic zones in Turkmenistan. However, as Awaza is a touristic zone, residential premises are more modern than in others. Another factor is that the free zone is located in Turkmenbashi city near to its population. The cost of living in the city is more cheap than in the Awaza free zone.

4.2.3 Land uses

Large tracts of land may be require by the government to create SEZs. As an incentive, land is generally granted for development at a price below market value. In some situations, large tracts of land which are arable are used, forcing many

farmers to leave their land and increase the compensation value of the land. This was a major problem for Indian SEZs, where the best agricultural land was sometimes used to create zones. In China, 55% of the territory of the development park in 2003 was occupied by arable land (Li 2004). In other cases, only a small portion of the allocated land is actually used by the SEZs. As, around 80% of land in Turkmenistan is covered with desert and it is almost a non-living land, FEZs in Turkmenistan are generally created in these areas. However, a creation of a free zone near a population which is on a developing stage, could bring issues for strategic expansion of living areas. It can be observed that national and local governments of Turkmenistan considered such a potential problem in creation of FEZs. The biggest FEZs in Turkmenistan are mainly located near to the borders of the country. Despite an issuance of giant land as 1,700 hectares for Awaza Tourist Zone at the north of the Turkmenbashi city, the position of land doesn't create problems for expansion of living lands or arable lands. However, this was not applied for FEZs in Turkmenistan. FEZs such as Mary-Bayramali Economic Zone and Ashgabat-Anau are located between major cities of the region where there were arable places before and made to shift these agricultural facilities to other places which produced additional cost.

4.2.4 Lack of localized strategy

One of the main goals of most SEZs is attracting foreign direct investment in the first stages. Overdependence on foreign direct investment is risky given its sensitivity to land and labor costs. However, some SEZs lack efficient plans to cultivate local production by maximizing the opportunities and spillovers of foreign direct investment to advance technology and modernize industrial value chains. In foreign companies, the technological effect is often less than in domestic ones. Perhaps this is because foreign companies are compelled to establish R&D departments abroad, are afraid to divulge technology secrets or face a shortage of local talent, and poor conditions for foreign employees. For example, finding suitable international schools nearby can be difficult. Reliance on foreign companies - rather than developing local production networks - can lead to very few links between SEZ firms (Liu 2006; Yang, Cai, and Fu 2012). At the initial stage of construction in Awaza National Tourist Zone, foreign investors were attracted as subcontractors. For example, as a subcontractor to the Awaza National Tourist Committee for the design of the park and the construction

and installation work of the theatrical interactive marine fountain complex, the United Arab Emirates ‘Fountains International Trading LLC’ was authorized to enter into a contract with the dollar 27,086,843 USD. Turkish company ‘Sehil İnşaat Endustri ve Tijaret Limited Şirketi’ was authorized to conclude agreements on the construction of a highway bridge, the planting of tree seedlings and various plants in the green areas of the streets, and the construction of an irrigation system, the provision of street lighting systems, and the improvement of the streets. While 12.5 hectares of land in the Awaza National Tourist Zone was provided for the construction of a high-rise hotel for the Open Joint-Stock Company of Russian Federation ‘Finansowaya Inwestisionnaya Kompaniya AAA’, 18 hectares of land in the Awaza National Tourist Zone was provided to ‘The KER-Holding Engineering Company’ of the Republic of Tatarstan (Russian Federation) for the construction of the Ski-Sports Complex. After advancing significant stage for the construction of free zone and attracting of foreign companies, on the basis of the Decree of President of Turkmenistan “On state support for small and medium-sized businesses” and in obedience to the Law of Turkmenistan on State Support for Small and Medium-Sized Businesses, small and medium-sized businesses were strongly supported by government. Remaining facilities and infrastructure of this internationally modern zone was replenished mainly by local companies. It is a positive result of government strategy to support of local companies. However, due to the lack of experience of local companies, the low quality of their buildings and services has also created a lot of controversy.

CHAPTER 5

RECOMMENDATIONS AND CONCLUSIONS

5.1 Case Study

The impact of tourism to GDP is based on such factors as number of tourists, their spending, and the value added generated by that spending. Turkmenistan is ranked as the lowest country with contribution of its tourism sector to GDP with only 0.1% among The Central Asia Regional Economic Cooperation (CAREC) countries. It is possible to improve the distribution of tourism income at national level in Turkmenistan by supporting and making stronger the tourism value chain. This chain can be strengthened by increasing the participation private stakeholders, especially SMEs and improving the quality of tourism services. (ADB CAREC countries tourism strategy 2030). Certainly, in the trade environment including the customs system, the improvement of customs system, in particular, the simplification of procedures, visa issues at the cross-border, diversification of industrial sectors, and acceleration of privatization are the important issues for Turkmenistan.

The coronavirus (COVID-19) pandemic which started in 2020 has placed conspicuous negative effect on economies of CAREC countries including Turkmenistan, with tourism being one of the hardest hit sectors. Despite this outbreak, according to ADB CAREC countries Tourism Strategy 2030, it is expected that Turkmenistan will be visited by over 114,000 international travelers in 2025, and Awaza National Tourism Zone will be the main destination for them.

Therefore, to promote Awaza National Tourism Zone and increase its contribution to GDP of the country, strategic pillars in terms of connectivity and infrastructure, quality and standards, skills development, marketing and branding, and market intelligence should be implemented by government as National Program. (ADB CAREC countries tourism strategy 2030).

1) The main goal for the program should target FDI to the zone. The attraction of investments should be aimed for improvement of infrastructure within the

free zone. Hence, a number of additional incentives should be provided for foreign investors and tourists. Especially, rigged visa regime creates certain barriers for them. Therefore, the government should shorten time, procedure and remove bureaucratic barriers for visa to demand side. The government should plan to introduce a simplified VISA procedure for Awaza visitors.

2) The creation and improvement of a modern tourism system in Awaza National Tourism Zone should be focused. For example, paperwork in the hotels must be digitalized, and travelers' electronic registration system should be implemented in free zone. Comprehensive promotion of tourism in the country and particularly in free zone needs to be applied by the government in near future. The registration of hotels of Awaza National Tourist Zone on international marketing platforms such as TripAdvisor, makemytrip.com, booking.com, Trivago.ru would be a step for marketing and promotion of tourism zone. During this process, it is substantial to consider the tourism development in accordance with strategies to protect the environment and reduce seasonality.

3) For connectivity and infrastructure, certain projects and activities should be implemented to make the road trip easier for tourists to enter the zone. Development of rail and road connectivity to decrease the time for travel key tourism assets and between tourism clusters in the zone is required. In this part Turkmenbashi International Seaport would play an important role. By this port, the development of ferry crossings could be realized for vehicles and passengers between cities neighboring with Caspian cities. To do so, development of tourism road map for the Caspian littoral states, and pre-feasibility study of alternative models for the ferry services, including public-private partnership arrangements should be studied as part of strategic pillar.

4) For quality and standards, the most important task for government should the focus on establishing a system for tourism registration. This registry could be connected to other business web systems of Awaza National Tourist Zone. Business, especially small and medium-sized enterprises aiming to work at free zone should get

capacity building on the realization of standards for quality and admittance to effective tools for promotion.

5) For skills development as strategic pillar, capacity building programs and trainings should be developed for tourism professionals of both public and private sectors on international standards and best practices in the management and development of tourism industry. From obtained COVID-19 experience, these capacity building programs should include the application and controlling of health and safety procedures and measures. Expectation of visitors from nearby states and farther markets while should be meet effectively by improvement of local guides' skills to introduce natural and cultural tourism assests.

6) As a strategic pillar in terms of marketing and branding, a web portal of Awaza National Tourist Zone should be developed and operationalized for sharing and integrating tourism related information and general business opportunities within the free zone. Events such as exhibitions are regularly organized by government in Awaza National Tourist Zone. The organization of such events should be focused to support and actively encourage the uniqueness of the location, its tangible and intangible cultural diversity and promote B2B networking and information sharing.

7) As strategic pillar in terms of market intelligence, common methodologies for collection of data such as tourism statistics should be developed and implemented. This should serve to control the effect of implemented strategies and policies to the economic development of the region. Regular surveys on customers' satisfaction and spending should be developed by capacity building programs for tourism agencies. Beside this, the partnership between public and private stakeholders within the free economic zone should be developed for research and analyses focused on customers' preferences, needs, behavior, and desired experiences.

5.2 Overall FEZs in Turkmenistan

1) FEZs in Turkmenistan are divided into very large areas ranging from 50 square kilometers to 125 square kilometers (the average size of the free economic zone in the world is 24 square kilometers). This requires a lot of investment. The global approach to the development of stripes needs to be reconsidered. There are almost no vacancies for development on the borders of the FTZs, mainly in the slopes of the farmers' associations and in the protected areas of the road communications. Turkmenistan's public administration bodies in national level should focus on improving and attracting external investments for the infrastructure of FEZs, the creation of which is not sufficient for their successful functioning in attracting investments such as FDI or local ones. According to the conclusions of this consulting project the topmost necessity for selected SEZs is investment in infrastructure.

2) When local government authorities of the host regions work in concert with the FEZ on projects and policies to its development, the benefits for economic development are maximized. Therefore, one of the highest recommendations is that the local public authorities of the regions where the FEZ is located should take more active part in the development process.

3) Both national and local governments of Turkmenistan should develop policies aimed at preventing or leastways minimizing brain drain and emigration so that when attractiveness of FEZs rises in the future, the need to fill the labor shortage could be achieved easily.

4) Working together with other regional actors such as local businesses and educational institutions is very important for free economic zones to develop the region. In order to maximize the number of elements such as the attractiveness of the zone to foreign and local investors or regional reputation value, FEZs should work on regional alliances, such as clusters.

5) The climate change, the world is facing currently is another worth considering fact. This causes leading firms to reflect on the transition to a green color. Therefore, FEZs should have environmental development plans when working on attracting FDI. Although only the special economic zone in the sample appears to be working on environmental projects and issues, it is important and highly recommended that the free economic zones work on future development activities, focusing on environmental issues.

In spite of the fact that the concept of SEZ has long been used by many countries, it is notable that the term for this concept differs in a large number. Using this consultant project, it comes to the conclusion about the differences in the terminology of the concept, affording outlined information: after careful study, it becomes clear that the following terms are interchangeable: free economic zone, special economic zone, foreign trade zone, free zone, etc. According to the information collected and processed in this project, the following conclusions were drawn about the role of FEZs in economic development: the concept of FEZs is used by many countries of the world to attract FDI to the host region and country, create new types of economic activities, link regional actors to each other and search for regional benefits. In addition, the project suggests that this concept can be used by public authorities of countries that are striving to achieve these goals. A successfully implemented zone benefits the region and helps economic development, and then regional development as a whole. As a result of the project, it was found that FEZs actively interact with regional entities of the host country, such as public authorities. It can be emphasized that FEZs are a very popular policy target when governments deal with lagging regions or underdeveloped regions in order to bring more dynamism to less developed regions. This is why, in the light of the study, it is revealed that the concept of FEZs is an important element of the concept of economic development, since they are used by many countries to create support and stimulate the development of lagging regions within the country. Having conducted a comparative analysis of the situation in FEZs in Turkmenistan with international best practices, we can conclude from the information revealed in this study that due to their vague background with the occupation by other forces, Turkmenistan went through difficult times before and after gaining its independence. The economic

crises that hit it harder than other countries have many causes, including their policies of unsustainable development, as well as their weak economic structure. The government used many strategies to reach the level of developed countries, and one of these strategies was to introduce well-functioning FEZs within their borders. This project shows that there are a number of FEZs in Turkmenistan.

According to the results gathered in this project, the answer of main question is described below as followings:

The proper financial conditions and comfortable places are required to be developed for the entrepreneurs and companies which are ready to use FEZs in Turkmenistan. The expectation in this process is the identification of potential development metrics for FEZs by conducting comparative analysis with international best practices and use foreign experiences accordingly.

As it was described in Chapter 4, there are also a number of challenges that slow the impact of free economic zones to the economic development of the country. It should be noted that even today the economic zones of free trade cannot be the main driving force in Turkmenistan's market relations reforms. The assimilation of the allocated boundaries was very slow and did not go sideways. An integrated economic mechanism for the creation and development of areas that can provide large-scale and sustainable investments, guarantee high economic growth, industry, trade capital development, and management, has not yet been fully developed.

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