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THE ROLE OF FREE ECONOMIC ZONES IN ATTRACTING INVESTMENT INTO THE ECONOMY OF UZBEKISTAN

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Abstract: This article examines the role and significance of Free Economic Zones (FEZs) in attracting investments to the economy of Uzbekistan. Particular attention is given to the improvement of the investment climate in the country, the attraction of foreign capital, and the enhancement of FEZ activities through the inflow of foreign direct investment (FDI). The study also highlights the role of FEZs in introducing modern technologies and increasing the country's export potential. Furthermore, the article analyzes the activities of the Free Economic Zones established in the Navoi region, their impact on regional economic development, their contribution to the expansion of industrial production, and their importance in creating new employment opportunities. Using the example of the Navoi Free Economic Zone, the study evaluates the system of incentives and preferences created for investors, the existing infrastructure conditions, and the investment projects implemented within the zone.

Keywords: Free Economic Zones, investment climate, foreign direct investment (FDI), technology transfer.

Introduction.

A Free Economic Zone (FEZ) is a designated part of a country's territory where special legal, customs, and currency privileges are introduced in order to stimulate entrepreneurial and investment activities. In addition, various incentives such as simplified licensing procedures, visa issuance, banking operations, and property relations are applied within these zones, which do not operate in other regions of the country. In other words, it can be described as an enclave, meaning a territory or part of a territory that is surrounded by another state or by other regions of the same country. In such areas, the level of government intervention in the economy is relatively limited, and certain privileges are granted that are not applied in other parts of the country.

Free Economic Zones are generally established to attract foreign and domestic investors, promote industrial development, increase exports, and create new jobs in the country.

The first Free Economic Zone established in the Republic of Uzbekistan was the Navoi Free Industrial Economic Zone, which was created by the decree of the respected First President Islam Karimov on December 2, 2008, titled "On the establishment of the Navoi Free Industrial Economic Zone." This Free Economic Zone is located in the Karmana district of the Navoi **Region.**

As can be seen from international practice, Free Economic Zones are established to achieve several important objectives:

The main purpose of establishing FEZs is to ensure the deep integration of the national economy into the international division of labor. Through the production of competitive export goods, it becomes possible to increase foreign currency revenues. If a

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country cannot ensure full liberalization of its economy for foreign entrepreneurial capital for certain reasons, the creation of Free Economic Zones can help establish a favorable investment environment for foreign investors.

FEZs are also established primarily to produce import-substituting goods and to supply the domestic market with high-quality products. In order to achieve these goals, import-substituting industries are created within these zones with the participation of foreign capital.

When establishing special economic zones, integration into the international division of labor is considered not only in manufacturing sectors but also in tourism, culture, and health resort industries.

FEZs also facilitate the introduction of foreign technologies and national scientific and technological innovations into production, which later can be widely applied throughout the national economy.

For developing countries, FEZs contribute to the training and education of qualified personnel.

The establishment of special economic territories is also aimed at stimulating the economic development of specific regions or sectors. For example, in the United States and the United Kingdom, special economic zones were created in the 1980s to support the development of small and medium-sized businesses in economically depressed regions. In these areas, entrepreneurs were granted financial incentives and greater freedom of economic activity compared to other regions of the country. Such programs were specifically designed to encourage the attraction of foreign capital. Therefore, special attention was given to attracting foreign investment in order to transform underdeveloped regions into economically developed ones.

In order to further develop Free Economic Zones in the country, the President of Uzbekistan Shavkat Mirziyoyev adopted the Law “On Special Economic Zones” (No. O‘RQ-604) on February 17, 2020. According to this law, a Special Economic Zone is defined as a specially designated territory with clearly established boundaries and a special legal regime created to accelerate the socio-economic development of a region by attracting foreign and domestic investments, advanced technologies, and modern management practices.

The main types of Special Economic Zones include: Free Economic Zones, special scientific and technological zones, tourist and recreational zones, free trade zones, and special industrial zones

Review of related literature.

In economic literature, the first official definition of a Free Economic Zone (FEZ) was given in the Kyoto Convention (1973) on May 18, 1973. According to this definition, goods brought into a Free Economic Zone established within the territory of a country are considered to be outside the national customs territory and are therefore not subject to the usual customs control procedures. As can be seen from the above, the economic freedom provided within a specific part of the country’s territory is not absolute but rather relative in nature. The freedom of this territory is determined by the exemption of goods entering the FEZ from customs duties and certain economic policy measures applied to imports, and goods brought into the FEZ from outside are not subject to customs declaration. However, existing laws do not completely exempt product owners and investors from economic regulations; instead, they simplify and facilitate these procedures.

One of the economists of Uzbekistan, S. Mirzalieva, in her scientific work titled “Foreign Experience in the Development of Free Economic Zones,” defines a Free Economic Zone as follows: “A Free Economic Zone is a part of the territory of a country (or several countries) established to address specific social, economic, and technological tasks, which has a special administrative management system and a preferential regime for economic entities operating within it.” From this definition, it can be understood that economic activity in such territories is relatively liberalized by the state, and special tax, customs, and other economic incentives are introduced that do not apply in other regions of the republic.[3]

In international literature, Free Economic Zones are often considered an important instrument for attracting investments, increasing exports, and stimulating economic growth. At the same time, some studies indicate that their impact on employment and efficiency is not always significant, and that the successful implementation of this policy requires a broader and more comprehensive economic strategy.

Research methodology.

In the methodology of this article, methods such as analysis and synthesis, scientific abstraction, generalization, and comparative theoretical interpretation were employed. The scientific basis of the research is formed by the articles of domestic and foreign scholars published in scientific journals, as well as their studies conducted at the international level. In addition, the research takes into account real economic indicators based on the analysis of statistical data. This approach increases the reliability of the research results and ensures the possibility of their practical application.

Analysis and results.

In the context of economic liberalization and modernization, Uzbekistan places great importance on creating favorable conditions for attracting foreign direct investment (FDI). The attraction of foreign investment plays a decisive role in supplying the domestic market with products and services that meet international standards. In this regard, the Government of Uzbekistan relies on the establishment and development of Special Economic Zones as an effective mechanism for attracting investments.

“Foreign investor countries in the Navoi Free Economic Zone (FEZ)[4]

Table 1.

Country	Investment Directions	Notes
South Korea	Electrical engineering, automobile components, logistics	One of the most active partners
China	Electronics, telecommunications equipment	Production of high-tech products
UAE	Logistics and transport infrastructure	Participation in zone management through DP World company
India	Pharmaceutical and chemical industry	Innovation production projects
Singapore	Telecommunications and electronics	Modern technologies
European countries (Italy, United Kingdom etc.)	Construction materials, industrial products	Establishment of joint ventures

Analysis of the activities of the Navoi Free Economic Zone (FEZ) indicates that several major foreign investor countries participate in the enterprises operating within the region. In particular, companies from South Korea, China, Singapore, India, the UAE, and European countries constitute a significant portion of the investment projects implemented in the Navoi FEZ.

According to analyses, the products manufactured in the Navoi FEZ include electronic equipment, cables and wires for automobiles, compressors, generators, pharmaceutical products, and construction materials. This demonstrates that the zone is primarily specialized in high-tech and industrial production. Moreover, the logistics capabilities of the Navoi FEZ are an important factor in attracting investors. The region hosts an international logistics center and an airport, which significantly facilitate export operations.

From the above analysis, it is evident that the Navoi FEZ has become an important industrial hub for attracting international investments. While Asian countries, particularly South Korea and China, are highly active investors, European and Middle Eastern countries also participate in industrial and logistics projects. This reflects that the Navoi FEZ is emerging as a key industrial and logistics center not only for Uzbekistan but also for the broader Central Asian region.

On February 10, 2026, the President of Uzbekistan, Shavkat Mirziyoyev, held a meeting to discuss ongoing efforts and future priority tasks for the socio-economic development of the Navoi region. Previously, when referring to Navoi's industry, the focus was mainly on large network enterprises such as the Navoi Mining and Metallurgy Combinat, "Navoiuran," "NavoiAzot," and "Qizilqumsement." Investment, employment, and economic growth were largely dependent on the activities of these enterprises.

As a result of efforts to comprehensively develop the regions, diversify the economy, and identify new growth points, by 2025, regional investments not linked to large network enterprises reached \$1.4 billion, with a target of increasing this figure to \$2 billion in 2026. At the same time, macroeconomic stability was ensured in the region last year. The Gross Regional Product reached 168 trillion UZS, growing by 7.7%. Industrial production increased by 8.3%, agriculture by 4.7%, and the services sector by 13.7%. A total of 161,000 new jobs were created, and unemployment and poverty rates fell to 4.2%.

As emphasized by the President, it is necessary to develop each district and city based on their relative advantages. Overall, the goal for the current year is to attract \$4.2 billion in foreign investments to the region and increase exports to \$1.5 billion. The meeting also highlighted the importance of supporting small and medium-sized enterprises, expanding their local participation, and promoting localization. It was noted that the agricultural potential of the region is not being fully utilized.

The Navoi region has 9 million hectares of pastures, sufficient to make sheep breeding, camel breeding, and horse breeding key drivers of the economy. To develop livestock, in 2026, small-horned cattle, pedigree camels, and horses will be imported from abroad. Overall, 3.3 million hectares of pastures in the region will be integrated into agricultural circulation based on a project-based approach. Drawing on China's experience in combating desertification, projects aimed at mitigating desertification are being implemented in Navoi.[5]

Free Economic Zones (FEZs) are increasingly recognized as significant drivers of economic growth, technology transfer, export potential, and foreign direct investment (FDI) inflows in the global economy. As of today, more than 5,400 FEZs operate worldwide, providing employment for over 100 million workers.

Global FEZ Market Trends (2024–2025):

FEZs account for approximately 20–22% of global export volumes;

Newly established zones are projected to experience a growth of +35% between 2020 and 2025;

The primary investment flows are concentrated in logistics, industrial manufacturing, e-commerce, and biotechnology sectors;

The Middle East and Asian regions have demonstrated the highest growth rates.

Foreign Direct Investment (FDI) Flows in Global Free Economic Zones (FEZs) during 2024–2025[6]

Table 2.

Region FDI Share (%)Remarks

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Middle East	32%	Significant developments in FEZs in the UAE, Qatar, and Saudi Arabia
East Asia	28%	Ongoing FEZ reforms in China and South Korea
South Asia	12%	Launch of new FEZ portals in India
Europe	14%	Active operations in FEZs across Poland, Lithuania, and Turkey
Americas	10%	FEZs in Panama, Mexico, and Uruguay driving investment
Africa	4%	Leading FEZs in Morocco and Mauritius

From the above table, it can be observed that while the inflow of foreign direct investment (FDI) in free economic zones (FEZs) is significantly high in some regions, it remains relatively low in others. The Middle East region ranks first, accounting for 32% of the total. In this region, particularly in the UAE, Qatar, and Saudi Arabia, the active development of FEZs and the creation of favorable conditions for investors have contributed to the growth of investment inflows. In these countries, tax incentives, well-developed logistics infrastructure, and proximity to international trade hubs serve as key factors in attracting investments.

The second position is occupied by East Asia, which accounts for 28% of the total. In this region, particularly in China and South Korea, the continuous modernization of FEZ systems and the implementation of new economic reforms support the stable maintenance of investment flows. East Asian countries also stand out due to their strong industrial production and export potential.

Following these are Europe and South Asia, with shares of 14% and 12%, respectively. In Europe, the active operation of FEZs in countries such as Poland, Lithuania, and Turkey has increased investment volumes. In South Asia, the modernization of FEZ portals in India and the introduction of digital services for investors have contributed to the improvement of the investment climate.

The Americas account for 10%, with relatively active FEZ development observed in Panama, Mexico, and Uruguay. However, their share remains lower compared to countries in Asia and the Middle East.

Africa has the lowest share, amounting to only 4%. Although Morocco and Mauritius host leading FEZs in the region, the overall investment volume remains considerably lower than in other regions.

Overall, the table indicates that the majority of FDI inflows are concentrated in the Middle East and East Asia. This can be attributed to the effective organization of FEZ activities, the attractiveness of the investment environment, and the development of infrastructure in these regions. In other regions, although FEZs are gradually developing, their share of investment remains relatively low.

Foreign direct investment plays a crucial role in enhancing the efficiency of free economic zones. Through these investments, modern production enterprises are established, new technologies are implemented, and the efficiency of production processes is increased. Moreover, FDI contributes to the creation of new jobs, the expansion of export volumes, and the enhancement of the competitiveness of the local economy. In particular, the favorable conditions created for investors in FEZs expand opportunities for attracting foreign capital. As a result, FEZs become important investment and industrial centers, significantly contributing to national economic development.

Conclusion.

Analyses conducted indicate that free economic zones (FEZs) represent a significant institutional mechanism for attracting investments into the economy of Uzbekistan. The favorable investment environment created in these zones, including tax and customs incentives, modern infrastructure, and a simplified management system for investors, expands opportunities for attracting foreign capital. As a result, there is a noticeable increase in the inflow of foreign direct investment (FDI) into various sectors of the national economy through FEZs.

FEZs are not only instrumental in attracting investments but also play a crucial role in introducing modern technologies, developing innovative production, and promoting the manufacture of export-oriented products. The establishment of new enterprises in these regions contributes to increasing production volumes, creating new employment opportunities, and supporting the socio-economic development of the areas. For example, investment projects implemented in the Navoi, Angren, and Jizzakh free economic zones play a key role in enhancing industrial production and boosting export potential.

At the same time, to further improve the functioning of FEZs and increase their investment attractiveness, the following recommendations can be proposed:

1. Expand export opportunities by further developing logistics and transport infrastructure within FEZs.
2. Simplify bureaucratic procedures for investors by enhancing digital services and the “single-window” system.
3. Place special emphasis on attracting high-tech and innovative production projects.
4. Develop industrial cooperation between local enterprises and foreign investors.
5. Support scientific research and innovation activities within FEZs.

Overall, FEZs play a significant role in modernizing Uzbekistan’s economy, diversifying industrial production, and enhancing the country’s competitiveness in the international investment arena. By further improving the operation of these zones, it is possible to increase the volume of investments attracted to the country and ensure sustainable economic growth in the future. Overall, FEZs play a significant role in modernizing Uzbekistan’s economy, diversifying industrial production, and enhancing the country’s competitiveness in the international investment arena. By further improving the operation of these zones, it is possible to increase the volume of investments attracted to the country and ensure sustainable economic growth in the future.

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