

**TRANSFORMATION OF TAX INCENTIVES IN THE FREE ECONOMIC ZONES
OF THE REPUBLIC OF UZBEKISTAN IN THE CONTEXT OF THE EXPECTED
ACCESSION TO THE WORLD TRADE ORGANIZATION**

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Abstract. This article examines the transformation of tax incentives provided in the Free Economic Zones (FEZs) of the Republic of Uzbekistan in the context of the country's expected accession to the World Trade Organization (WTO). The study analyzes the current system of tax benefits granted to enterprises operating in FEZs and evaluates their effectiveness in attracting foreign investment, promoting export-oriented production, and stimulating regional economic development. Particular attention is paid to the compatibility of Uzbekistan's preferential tax regimes with WTO principles and international trade rules, including the requirements related to subsidies and fair competition. The paper explores international experience in regulating tax incentives in special economic zones and highlights the potential challenges and opportunities that may arise during the process of harmonizing national legislation with WTO standards. Based on comparative analysis and economic evaluation, the research proposes recommendations for improving the tax incentive mechanism in Uzbekistan's FEZs in order to maintain investment attractiveness while ensuring compliance with global trade regulations. The findings of the study contribute to the development of an effective policy framework for balancing economic incentives with international obligations in the process of Uzbekistan's integration into the global trading system.

Keywords: Free Economic Zones, tax incentives, tax policy transformation, World Trade Organization, Uzbekistan, investment climate, export promotion, economic integration, international trade rules, economic development.

INTRODUCTION

In the context of globalization and the rapid development of international economic relations, the integration of national economies into the global trading system has become an important factor for sustainable economic growth. Many developing countries actively use various economic instruments to attract foreign investment, stimulate exports, and accelerate industrial development. One of the most widely used tools in this regard is the establishment of Free Economic Zones (FEZs), which provide favorable business conditions, including tax incentives, customs privileges, and simplified administrative procedures. These zones play a significant role in promoting regional development, creating new jobs, and increasing the competitiveness of the national economy.

In recent years, the Republic of Uzbekistan has been implementing large-scale economic reforms aimed at improving the investment climate, liberalizing foreign trade, and expanding cooperation with international economic institutions. Within this framework, special attention has been given to the development of Free Economic Zones as an effective mechanism for attracting foreign direct investment and introducing modern technologies into the national economy. Currently, several FEZs operate in Uzbekistan, offering a range of tax incentives and financial benefits to resident enterprises in order to stimulate industrial production and export-oriented activities.

At the same time, Uzbekistan is actively working toward accession to the World Trade Organization (WTO), which requires the harmonization of national legislation with international trade rules and standards. One of the important issues in this process is the compatibility of

existing tax incentives and subsidy mechanisms with WTO requirements. According to WTO agreements, certain forms of state support, including export subsidies and discriminatory tax benefits, may be restricted or subject to strict regulation. Therefore, the transformation and optimization of tax incentives in Uzbekistan's Free Economic Zones becomes a critical task in the context of the country's integration into the global trading system.

The relevance of this research lies in the need to analyze the current system of tax incentives in Uzbekistan's FEZs and to assess their compliance with WTO principles and international best practices. In this regard, the article aims to examine the existing tax incentive framework, identify potential risks related to WTO accession, and propose recommendations for improving the tax policy in Free Economic Zones. The results of the study may contribute to the development of an effective and balanced approach to maintaining investment attractiveness while ensuring compliance with international trade obligations.

LITERATURE REVIEW

The issue of tax incentives and their role in the development of Free Economic Zones (FEZs) has been widely discussed in international economic literature. Researchers emphasize that preferential tax regimes are one of the key instruments used by governments to stimulate investment activity, encourage export-oriented production, and promote regional economic development. However, the effectiveness and sustainability of such incentives remain a subject of debate, especially in the context of international trade regulations and the rules established by the World Trade Organization (WTO).

According to the studies of economists such as **Paul Krugman**, **Joseph Stiglitz**, and **Jagdish Bhagwati**, special economic zones and preferential tax regimes can serve as important mechanisms for accelerating industrialization and attracting foreign direct investment in developing countries. These scholars note that FEZs often create favorable institutional and fiscal conditions that reduce production costs and increase the competitiveness of enterprises in international markets. At the same time, they highlight that excessive reliance on tax incentives may lead to fiscal losses and distortions in market competition if such policies are not carefully regulated.

A number of studies conducted by international organizations, including the **World Bank**, the **International Monetary Fund**, and the **United Nations Conference on Trade and Development (UNCTAD)**, also analyze the impact of tax incentives in special economic zones. Their research indicates that while tax benefits can play an important role in attracting investors, other factors such as infrastructure development, institutional quality, political stability, and access to markets often have a more significant influence on investment decisions. These studies suggest that governments should adopt a balanced approach in designing tax incentive policies in order to maximize economic benefits while minimizing potential fiscal risks.

In the context of WTO regulations, several scholars have examined the compatibility of tax incentives with international trade rules. Research on the **Agreement on Subsidies and Countervailing Measures (SCM Agreement)** highlights that certain types of tax incentives, particularly those directly linked to export performance, may be considered prohibited subsidies under WTO rules. Therefore, countries preparing for WTO accession often need to reform or transform their preferential tax regimes to ensure compliance with these regulations while maintaining investment attractiveness.

METHODOLOGY

This study applies a combination of qualitative and comparative research methods to analyze the transformation of tax incentives in the Free Economic Zones (FEZs) of Uzbekistan in the context of the country's expected accession to the World Trade Organization (WTO). The research is based on the analysis of national legislation, regulatory documents related to tax

incentives in FEZs, and international trade regulations, particularly the WTO Agreement on Subsidies and Countervailing Measures.

In addition, comparative analysis is used to examine international practices of tax incentive regulation in special economic zones in different countries. Statistical data, analytical reports of international organizations, and scientific publications are also utilized to evaluate the effectiveness of tax incentives and their compliance with WTO requirements. The research findings are synthesized to identify potential challenges and propose policy recommendations for improving the tax incentive system in Uzbekistan's FEZs.

ANALYSIS AND RESULTS

Free Economic Zones (FEZs) in the Republic of Uzbekistan have become one of the key instruments for stimulating industrial development, attracting foreign direct investment, and promoting export-oriented production. Over the past decade, the government has established several FEZs such as Navoi, Angren, Jizzakh, Urgut, Gijduvan, Kokand, and Khazarasp. These zones provide resident enterprises with a number of fiscal and institutional advantages, including tax incentives, customs privileges, simplified administrative procedures, and access to developed infrastructure. As a result, FEZs have played an important role in strengthening the industrial base of the country and supporting regional economic development.

One of the most significant elements of the FEZ policy in Uzbekistan is the system of tax incentives granted to resident companies. Depending on the volume of investment, enterprises operating in FEZs may receive exemptions from several major taxes, including corporate income tax, property tax, land tax, and certain customs duties. In many cases, these benefits are provided for a specific period ranging from three to ten years or more. Such incentives significantly reduce the cost of doing business and create favorable conditions for both domestic and foreign investors.

The analysis of available data indicates that tax incentives have had a positive impact on attracting investment to FEZs. Many manufacturing enterprises specializing in electronics, construction materials, chemical products, and textile production have been established within these zones. In addition, FEZs contribute to increasing the export potential of Uzbekistan by supporting the production of competitive goods for international markets. The presence of preferential tax regimes has also encouraged the transfer of modern technologies and management practices.

However, in the context of Uzbekistan's expected accession to the World Trade Organization (WTO), the current system of tax incentives requires careful evaluation and possible transformation. WTO rules, particularly those established under the Agreement on Subsidies and Countervailing Measures (SCM Agreement), restrict certain forms of government support that may distort international trade. For example, subsidies that are directly linked to export performance or that provide discriminatory advantages to specific enterprises may be considered incompatible with WTO principles.

The analysis shows that some elements of the preferential tax regime in FEZs may require adjustment to ensure compliance with international trade rules. In particular, it is important to avoid tax incentives that are explicitly tied to export obligations or that create unequal conditions for domestic and foreign companies. Instead, tax policies should be designed in a way that encourages investment, innovation, and technological development without violating WTO regulations.

International experience demonstrates that many countries have successfully reformed their special economic zone policies during the process of WTO accession. Rather than eliminating incentives completely, governments have shifted from direct export-based subsidies to broader investment support measures, including infrastructure development, innovation incentives, research and development support, and improved business environments. Such approaches allow

countries to maintain the attractiveness of their economic zones while ensuring compliance with international trade standards.

The results of the analysis indicate that Uzbekistan has significant opportunities to modernize its tax incentive system in FEZs. By gradually transforming the existing preferential regimes and aligning them with WTO requirements, the country can strengthen investor confidence, improve transparency, and enhance the long-term sustainability of its economic policies. This transformation will also support Uzbekistan's broader strategy of integrating into the global economy and expanding its participation in international trade.

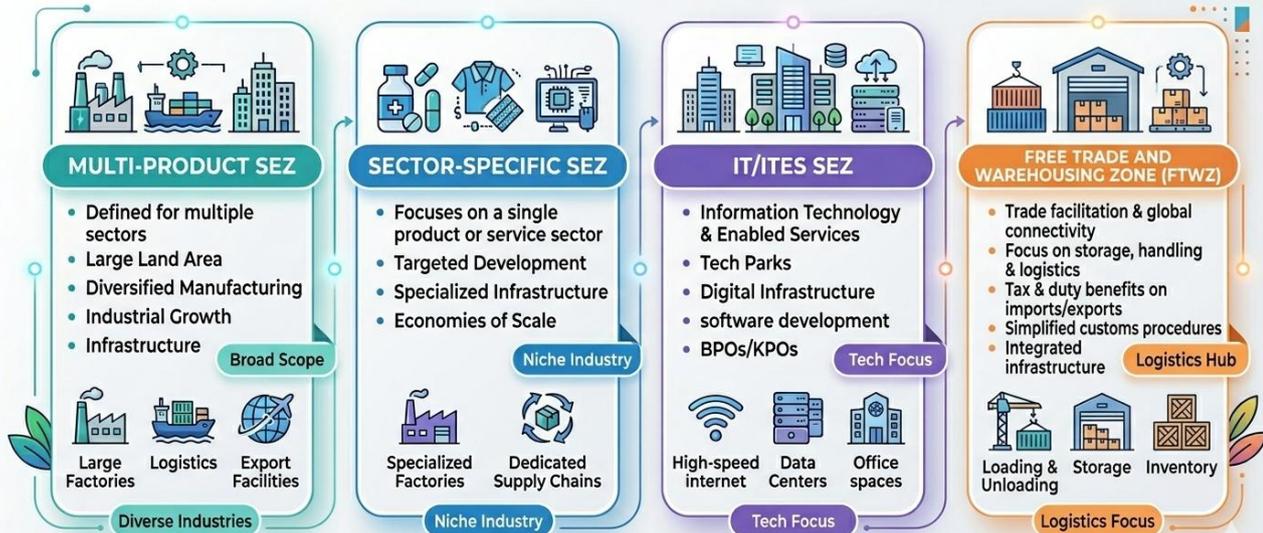
Table 1.

Main Tax Incentives Provided in Free Economic Zones of Uzbekistan

Type of Tax Incentive	Description	Duration of Benefit
Corporate Income Tax Exemption	FEZ resident enterprises may be exempt from corporate income tax depending on the amount of investment	3–10 years
Property Tax Exemption	Enterprises operating within FEZs are exempt from property tax to reduce operational costs	Up to 10 years
Land Tax Exemption	Investors are provided land tax exemptions to encourage industrial development in the zones	Up to 10 years
Customs Duties Preferences	Imported equipment, raw materials, and components used for production may be exempt from customs duties	According to investment agreement
Simplified Administrative Procedures	Faster registration procedures, licensing facilitation, and reduced bureaucratic barriers	Permanent during FEZ residency

Source: Compiled by the author based on national legislation and economic policy documents of Uzbekistan.

UNDERSTANDING SPECIAL ECONOMIC ZONES (SEZs) IN INDIA: TYPES & CATEGORIES



*This infographic categorizes SEZ types based on general industry definitions. For specific regulations, refer to official Indian government guidelines.

CONCLUSION AND RECOMMENDATIONS

The analysis conducted in this study demonstrates that Free Economic Zones (FEZs) play an important role in the economic development of the Republic of Uzbekistan. Preferential tax regimes implemented in these zones have contributed significantly to attracting foreign direct investment, expanding industrial production, and increasing the country's export potential. Tax incentives such as exemptions from corporate income tax, property tax, land tax, and customs duties have created favorable conditions for investors and encouraged the establishment of new enterprises in priority sectors of the economy. As a result, FEZs have become an effective mechanism for stimulating regional development, creating employment opportunities, and facilitating the transfer of modern technologies.

At the same time, Uzbekistan's ongoing efforts to join the World Trade Organization (WTO) require the harmonization of national economic policies with international trade rules and standards. In this context, the current system of tax incentives in FEZs must be carefully reviewed and gradually transformed in order to ensure its compliance with WTO principles. In particular, certain forms of state support that are directly linked to export performance or that create discriminatory conditions for enterprises may be inconsistent with the provisions of the WTO Agreement on Subsidies and Countervailing Measures. Therefore, the modernization of tax incentive mechanisms is necessary to balance national development goals with international trade obligations.

Based on the results of the research, several recommendations can be proposed to improve the tax incentive system in Uzbekistan's Free Economic Zones.

First, it is important to gradually transform existing tax incentives by shifting from export-based subsidies toward broader investment-oriented incentives that support innovation, technological development, and industrial modernization. Such an approach would allow Uzbekistan to maintain the attractiveness of its FEZs while ensuring compliance with WTO requirements.

Second, the government should focus on improving non-fiscal factors that influence investment decisions, including infrastructure development, efficient logistics systems, transparent administrative procedures, and legal protection for investors. International experience

shows that these factors often play a more significant role in attracting investment than tax incentives alone.

Third, it is advisable to introduce a more transparent and performance-based system for granting tax benefits in FEZs. This system could link incentives to indicators such as job creation, technology transfer, environmental sustainability, and contribution to regional economic development.

Fourth, strengthening institutional coordination between government agencies responsible for trade policy, tax administration, and investment promotion will be essential during the WTO accession process. Effective coordination will help ensure that economic policies remain consistent with international standards and support sustainable economic growth.

In conclusion, the transformation of tax incentives in Uzbekistan's Free Economic Zones represents an important step in the country's broader strategy of integrating into the global economy. By adopting a balanced and transparent policy framework, Uzbekistan can continue to attract investment, promote industrial development, and successfully align its economic policies with the requirements of the World Trade Organization.

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