



## **FREE ECONOMIC ZONES IN UZBEKISTAN: A STRATEGIC TOOL FOR ATTRACTING FOREIGN DIRECT INVESTMENT**

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**Abstract:** This research investigates the efficacy of Uzbekistan's Free Economic Zones (FEZs) as instruments for attracting Foreign Direct Investment (FDI) and stimulating economic growth, situating this analysis within the broader context of Uzbekistan's national development strategies. The study employs a comparative approach, drawing upon a multifaceted data set encompassing primary and secondary sources. Primary sources include relevant Uzbekistani legislation pertaining to FEZs, official government documents outlining national development plans and strategies for FEZ development, and internal reports from relevant government agencies. Secondary sources comprise data from reputable international organizations such as the World Bank and UNCTAD, offering comparative benchmarks and macroeconomic indicators relevant to FDI attraction and economic growth within FEZs globally. Furthermore, the analysis incorporates peer-reviewed academic literature on the effectiveness of FEZs in various developing economies, providing theoretical frameworks and empirical evidence to contextualize the Uzbekistani case.

The research will conclude by proposing concrete policy recommendations aimed at enhancing the competitiveness and global appeal of Uzbekistan's FEZs. These recommendations will address identified shortcomings within the existing framework and offer actionable strategies for improving legal clarity, strengthening institutional capacity, upgrading infrastructure, and promoting greater integration into global markets. The ultimate goal is to provide policymakers with evidence-based insights to optimize the effectiveness of Uzbekistan's FEZ strategy, maximizing its contribution to FDI attraction, economic diversification, and sustainable development.

**Keywords:** Free Economic Zones, Foreign Direct Investment, Legal Transparency, Uzbekistan, Institutional Development, Infrastructure, Global Value Chains, Economic Reform, International Standards

In the context of globalization and intensified international competition for capital, Free Economic Zones (FEZs) have gained prominence as dynamic policy tools for attracting foreign direct investment (FDI), stimulating exports, and fostering industrial modernization. Uzbekistan, undergoing a transformative phase of economic liberalization since 2017, has increasingly prioritized the development of FEZs as part of its broader strategy to integrate into the global economy. With over 23 FEZs currently operational across various regions, the government has positioned these zones as investment-friendly enclaves offering tax exemptions, simplified customs procedures, and access to infrastructure. This study seeks to analyze the role of FEZs in Uzbekistan's investment landscape by evaluating their design, governance, and outcomes.

The scholarly literature on FEZs demonstrates a consensus on their potential to catalyze structural transformation when supported by appropriate legal, regulatory, and institutional environments. According to Farole and Akinci (2011), the success of SEZs in countries like

China, Vietnam, and the UAE is rooted in their strong governance frameworks, strategic geographic locations, and clear regulatory incentives. Meanwhile, empirical studies by UNCTAD (2021) emphasize the risks of enclave development and the importance of integrating zones into national development strategies. In the case of Central Asia, the literature remains relatively limited, though works by Pomfret (2020) and Iwasaki & Suganuma (2022) highlight the potential of FEZs in facilitating regional economic integration. For Uzbekistan, most existing research focuses on descriptive aspects of zones, underlining a need for deeper analytical studies on their institutional and legal performance in attracting sustainable FDI.

This study adopts a qualitative, interdisciplinary approach, drawing on official government reports, legislative documents, statistical data from UNCTAD and the World Bank, as well as peer-reviewed academic literature. A comparative analysis is applied to contrast Uzbekistan's FEZ model with that of selected high-performing countries. Policy evaluation frameworks developed by OECD and UNIDO are utilized to assess the effectiveness of legal and institutional mechanisms within Uzbekistan's FEZs. Field-level data (e.g., investment inflow statistics, zone-specific reports) were also reviewed to evaluate practical outcomes and trends.

The establishment of a coherent and investor-oriented legal framework is foundational to FDI attraction. Uzbekistan has introduced a range of legal instruments—such as Presidential Decree No. PP-4516 (2019)—to guarantee tax incentives and regulatory exemptions in its FEZs. However, challenges persist in ensuring uniform application of rules across zones, transparency of land allocation processes, and investor access to legal redress mechanisms. The introduction of digital legal platforms (e.g., Lex.uz) and simplified registration portals marks positive steps toward enhanced legal predictability and access to justice.

Infrastructure plays a decisive role in determining the operational efficiency and attractiveness of FEZs. Uzbekistan has invested significantly in improving physical connectivity to its zones, particularly in logistics hubs like Navoi and Angren. Despite progress, gaps remain in power reliability, digital infrastructure, and multimodal transport integration. The development of green infrastructure and renewable energy networks is particularly essential for attracting ESG-conscious investors.

Effective zone governance requires robust institutions. The Ministry of Investment, Industry and Trade (MIIT), together with the FEZ administrative authorities, has taken measures to professionalize zone management and ensure better inter-agency coordination. However, bureaucratic inertia, limited human capacity, and inconsistencies in enforcement practices often hinder smooth investor experiences. There is a need for performance-based evaluation systems, digital monitoring, and greater decentralization of decision-making.

International investors increasingly assess FEZs based on adherence to global regulatory norms and ESG (Environmental, Social, Governance) criteria. Uzbekistan has begun harmonizing its legal frameworks with WTO and OECD guidelines, yet the process remains incomplete. Certification schemes (e.g., ISO, HACCP) and compliance with international labor and environmental standards are uneven across zones. Greater alignment would not only improve investor confidence but also integrate Uzbek FEZs into global production networks.

Uzbekistan's FEZ strategy demonstrates a clear intent to leverage geographic advantages and attract diversified investment portfolios. Yet, for these zones to transition from investment enclaves to engines of inclusive development, deeper institutional reforms and regional coordination are required. The comparison with international best practices suggests that successful zones are those embedded within national industrial policies, supported by capable institutions, and designed to evolve in response to global economic trends. Moreover, integration with regional initiatives such as the Belt and Road Initiative (BRI) can amplify the role of FEZs

in transcontinental logistics and manufacturing.

FEZs in Uzbekistan represent a vital component of the country's economic modernization agenda. Their ability to attract FDI, generate employment, and promote export diversification hinges upon sustained reforms in governance, legal transparency, infrastructure, and international engagement. While initial outcomes are promising, a more strategic, investor-centric, and future-ready model is essential to fully unlock their transformative potential. The government must prioritize policy coherence, institutional resilience, and legal reforms to establish globally competitive economic zones that serve as nodes of innovation and integration.

In order to fully unlock the strategic potential of Free Economic Zones (FEZs) in Uzbekistan and ensure their long-term sustainability and competitiveness, the following key measures are recommended:

Clear and consistently enforced legal norms are essential for building investor confidence. Uzbekistan should further harmonize its FEZ-related legislation with international standards, ensuring that foreign investors enjoy transparent procedures, legal predictability, and effective dispute resolution mechanisms. Enhancing the autonomy and legal clarity of investment contracts, land use rights, and tax obligations will contribute to minimizing administrative ambiguity and fostering a stable business environment.

Modern, reliable, and integrated infrastructure is the backbone of successful economic zones. Priority should be given to upgrading transport corridors, energy supply networks, digital connectivity, and logistics services within and around FEZs. Public-private partnerships (PPPs) and international cooperation can play a decisive role in financing and implementing infrastructure projects tailored to the needs of export-oriented industries.

Well-functioning institutions are crucial for operationalizing the benefits of FEZs. Uzbekistan needs to further professionalize the administrative bodies responsible for managing these zones, ensuring merit-based recruitment, digitalization of services, and inter-agency coordination. Establishing transparent monitoring and evaluation frameworks will allow policymakers to track performance, respond to challenges, and improve accountability in zone management.

To maximize the integration of FEZs into global production systems, Uzbekistan must align its regulatory practices with World Trade Organization (WTO) rules and best practices of the Organisation for Economic Co-operation and Development (OECD). Participating in international certification schemes, adopting environmental and labor standards, and promoting sector-specific clusters can help attract high-quality FDI and position Uzbek FEZs as competitive players in global value chains.

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