

WAYS TO DEVELOP FREE ECONOMIC ZONES IN UZBEKISTAN BASED ON ATTRACTING FOREIGN INVESTMENT

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Annotation: This thesis explores the strategic importance of foreign investment in the development of free economic zones (FEZs) in Uzbekistan. It analyzes the current state of these zones, identifies the main challenges in attracting foreign capital, and evaluates the economic, legal, and infrastructural conditions that influence investor decisions. The study also draws on successful international experiences to suggest policy recommendations tailored to Uzbekistan's specific economic environment. Emphasis is placed on improving the investment climate, enhancing administrative transparency, and developing supportive infrastructure to increase the competitiveness of the FEZs. The research aims to provide practical strategies for optimizing the role of foreign investments in sustainable regional development.

Keywords: Foreign investment, free economic zones, Uzbekistan, investment climate, infrastructure development, economic policy, regional development, economic integration, international experience.

In recent years, Uzbekistan has undertaken broad economic reforms aimed at integrating into the global economy, liberalizing markets, and attracting foreign direct investment (FDI). One of the key mechanisms in this process is the development of free economic zones (FEZs). These zones are created to provide favorable conditions for both foreign and domestic investors by offering incentives such as tax breaks, simplified customs procedures, and modern infrastructure. Given their strategic significance, the development of FEZs through foreign investment has become a priority area for achieving sustainable and inclusive economic growth in Uzbekistan.

The Concept and Importance of Free Economic Zones Free economic zones are specially designated areas within a country where business and trade laws differ from the rest of the country. Their purpose is to attract foreign investment, boost exports, promote regional development, and create employment opportunities. In Uzbekistan, FEZs are expected to play a crucial role in diversifying the economy, advancing industrialization, and increasing the export potential of local products. Currently, Uzbekistan has established several FEZs, including Navoi, Angren, Jizzakh, Urgut, and various pharmaceutical-focused zones like Nukus-Pharm and Sirdaryo-Pharm. These zones cater to different industries such as pharmaceuticals, textiles, electronics, and food processing. Each FEZ is strategically located to leverage regional advantages such

as proximity to raw materials, access to transportation networks, and availability of labor.

Current Status of Foreign Investment in Uzbekistan's FEZs Despite considerable government efforts, the full potential of FEZs in attracting foreign investment has yet to be realized. While some zones, like Navoi and Angren, have attracted significant foreign capital, others struggle with underutilization and lack of investor interest. According to data from Uzbekistan's Ministry of Investments, Industry, and Trade, as of 2023, foreign investments in FEZs accounted for less than 15% of the country's total FDI.

Several factors contribute to this underperformance:

1. **Insufficient Infrastructure:** Many FEZs lack fully developed infrastructure such as roads, electricity, water supply, and internet connectivity, which discourages investors.

2. **Legal and Regulatory Uncertainty:** Frequent changes in regulations and inconsistent enforcement of laws create a sense of unpredictability among foreign investors.

3. **Bureaucratic Obstacles:** Complex administrative procedures, delays in obtaining permits, and corruption hinder smooth business operations within FEZs.

4. **Limited International Awareness:** There is a lack of effective promotion and international marketing of Uzbekistan's FEZs.

Global Best Practices and Lessons for Uzbekistan Several countries have successfully leveraged FEZs to attract foreign investment and boost economic growth. For example:

China's Shenzhen SEZ has transformed from a small town into a global tech hub, thanks to massive infrastructure development and favorable investment policies. The United Arab Emirates' Jebel Ali Free Zone offers world-class logistics, tax incentives, and a pro-business regulatory environment. Poland's Special Economic Zones support regional development through targeted incentives and integration with the European Union market.

Uzbekistan can learn from these examples by adopting policies that provide greater legal protection to investors, ensuring transparency and reducing bureaucratic red tape, and investing heavily in infrastructure.

Strategies to Attract Foreign Investment into FEZs.

1. **Improving Infrastructure:** Priority should be given to developing transport and logistics networks, energy supply systems, and digital infrastructure. Government-private sector partnerships can be a viable model for financing such developments.

2. **Legal Reforms:** Introducing stable and transparent legal frameworks is essential. This includes enforcing property rights, ensuring contract enforcement, and offering legal recourse for dispute resolution.

3. **Investment Incentives:** Expanding the range and duration of tax exemptions, customs privileges, and land use rights can enhance the attractiveness of FEZs. Incentives should be tailored to specific industries to support industrial diversification.

4. **One-Stop Services:** Establishing one-stop service centers in each FEZ will streamline administrative processes for investors. These centers should handle registration, licensing, customs clearance, and other bureaucratic tasks in a time-efficient manner.

5. **Human Capital Development:** Creating vocational training centers near FEZs to ensure a steady supply of skilled labor is critical. Collaborations with foreign universities and technical schools can improve workforce quality.

6. **Marketing and Promotion:** Uzbekistan should actively promote its FEZs in international forums, investment conferences, and through embassies abroad. Publishing detailed investment guides and success stories will also help improve the country's image.

7. **Public-Private Partnerships (PPPs):** Encouraging PPPs for the development of industrial parks, logistics hubs, and social infrastructure within FEZs can enhance investment flows and reduce government burden.

Potential Benefits of Enhanced Foreign Investment in FEZs Attracting more foreign investment to FEZs would lead to:

Job creation and reduction in unemployment: Technology transfer and innovation. Increased export revenues. Regional economic development. Enhanced industrial competitiveness.

Furthermore, successful FEZs can serve as testing grounds for broader economic reforms and help integrate Uzbekistan into global value chains.

Challenges and Risks Despite the benefits, several challenges must be addressed to ensure long-term success: Risk of environmental degradation due to industrial activities. Socio-economic disparities between regions. Overdependence on foreign capital. Potential misuse of incentives without proper monitoring.

Addressing these risks requires establishing strict environmental regulations, promoting inclusive growth policies, and maintaining a balanced approach between foreign and domestic investments.

Conclusion Free economic zones represent a strategic tool for Uzbekistan to achieve accelerated economic growth and integration into global markets. However, realizing their full potential hinges on the country's ability to attract and retain foreign investment. By improving infrastructure, streamlining regulations, offering competitive incentives, and building investor confidence, Uzbekistan can transform its FEZs into dynamic engines of economic development. The government must take a holistic and coordinated approach that involves policy makers, investors, local communities, and international partners. With sustained efforts and strategic planning,

Uzbekistan's FEZs can become regional hubs for innovation, trade, and industry, contributing significantly to the nation's long-term prosperity.

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