

ECONOMIC ZONES AS A MECHANISM FOR ATTRACTING FOREIGN INVESTMENT

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Annotation. *This article analyses the effectiveness of special economic zones (SEZs) as a tool for attracting foreign direct investment (FDI) to developing countries. It examines incentive mechanisms — tax breaks, simplified administrative procedures, infrastructure guarantees — and their practical implementation using Uzbekistan as an example. Particular attention is paid to leading examples and the analysis of statistical data on investment volumes and the dynamics of SEZ development.*

Keywords: *Special economic zones (SEZs), foreign investment, foreign direct investment, tax incentives, economic incentives, infrastructure, investment climate, industrial parks.*

Special economic zones, or SEZs, are territories with special economic and legal regimes designed to stimulate investment and economic activity. Uzbekistan is actively developing such a policy: creating industrial and technology parks, providing tax and customs incentives, and simplifying procedures for foreign investors.

SEZs provide competitive advantages for participants:

- Tax incentives: exemption from corporate tax, customs duties, and VAT.
- Infrastructure guarantees: provision of communications (roads, electricity, communications).
- Administrative preferences: expedited registration, minimal bureaucracy, ‘single window’ service.
- Market access: easy export, opportunity to establish joint ventures.

Such conditions attract foreign investors by reducing the costs and risks of entering a new market.

Uzbekistan is creating various models of SEZs: industrial parks, technology parks, and clusters. Among the most significant are:

- Navoi Free Economic Zone — a large industrial hub with investors from Russia, South Korea, and China.
- Angren Industrial Park — focusing on light industry and logistics with high-quality infrastructure and preferential tax policies.
- Jizzakh Free Economic Zone — targeting the metal and machine-building industries.

These zones demonstrate a significant presence of international companies that value the benefits and centralised infrastructure.

Table 1

Summary of the three key economic zones in Uzbekistan

	Economic zone	Main profile
1	Navoi Free Economic Zone	Manufacturing, metallurgy, chemicals, logistics
2	Angren Industrial Park	Light industry, textiles, logistics
3	Jizzakh Free Economic Zone	Construction industry, metalworking, mechanical engineering

General principles: how economic zones stimulate foreign investment:

1. Tax incentives and customs preferences

Such zones often offer reduced taxes, exemption from import duties on equipment and raw materials, and exemption from income or property taxes for several years.

2. Simplified administrative regulation

Fast business registration procedures, a single window for permits, less stringent labour migration rules, etc.

3. Developed infrastructure

The zones are equipped with modern logistics, energy and telecommunications facilities, which is attractive to companies looking for ready-made solutions.

4. Geographical and logistical advantages

Location near ports, airports, or in cross-border zones provides a competitive advantage in terms of supply and market access.

5. Focus on specific industries (cluster effect)

Zones often specialise — for example, IT parks, biotechnology clusters, automotive hubs. This creates synergy, stimulates technology transfer, and generates economies of scale.

6. Investor protection and legislative predictability

Guarantees of profit repatriation, protection of property rights, and contract protection increase the confidence of foreign entities.

Key advantages of free economic zones for investors:

- ◆ Exemption from certain taxes and duties.
- ◆ Fast processing of documents and permits (one-stop shop principle).
- ◆ Modern infrastructure (transport, communications, energy supply).
- ◆ Access to qualified personnel and logistics centres.



Economic zones are particularly effective as a mechanism for attracting foreign investment because they reduce market entry costs, mitigate risks and increase project profitability. Many countries use this tool, from China (Shenzhen, Zhuhai) to the UAE (Jebel Ali) and Poland.

For example, China — Shenzhen Special Economic Zone. A classic ‘pilot’ reform: created in 1980 to attract FDI and test market reforms. It provided tax incentives, simplified registration, access to export markets, and rapid infrastructure support. The result was the transformation of a fishing village into a megacity and a powerful export-oriented cluster of technology and electronics.

According to data from the Agency for Investment Attraction and Project Management under the Government of Uzbekistan, by the end of 2023:

- The total inflow of FDI into SEZs exceeded \$1.2 billion, which is about 30% of all FDI in the country.
- The number of foreign companies in SEZs increased by 25–30% compared to 2021.
- Employment in SEZs increased by 15%, providing jobs for the local population and stimulating exports.

SEZs are an effective tool of state policy for stimulating the inflow of foreign investment. They create a favourable business environment, minimise risks and ensure a quick return on investment. The example of Uzbekistan shows how SEZs help integrate the country into global value chains, boosting the industrial, logistics and high-tech sectors.

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