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## FREE ECONOMIC ZONES IN UZBEKISTAN: TYPES AND FAVORABLE CONDITIONS

Pardayeva Shaxrizoda

Master Student, TSUE

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### **Abstract**

According to the "Strategy for the Further Development of the Republic of Uzbekistan" development of the economic spheres are among the priorities. Taking into account special features of Uzbekistan 7 free economic zones have been created and 7 more will be created. Our government adopted laws to support creation of free economic zones which includes tax preferences, custom preferences and optimized administrative process for foreign and domestic investors. Based on the actuality of the above mentioned this abstract considers free economic zones in Uzbekistan.

**Keywords:** Free economic zones, taxes, customs, investment, foreign investors.

### **Аннотация**

Развитие и либерализация экономики является одним из приоритетных направлений

«Стратегии действий по дальнейшему развитию Республики Узбекистан». Исходя из особенностей развития регионов республики, в Узбекистане созданы 7 экономических зон, также запланировано создание еще 7 зон. Государство в данном направлении создает все условия, определяя налоговые преференции, таможенные льготы и оптимизируя административные процессы привлечения зарубежных инвестиций. Исходя из актуальности вышеперечисленных вопросов, в данной статье рассматриваются вопросы создания свободных экономических зон в Узбекистане.

**Ключевые слова:** свободные экономические зоны, налоги, таможня, инвестиции, зарубежные инвесторы.



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In conditions of liberalization and modernization of the economy, in order to supply local market with products suitable to international standards it is important to create favorable conditions for foreign investments. And free economic zones are the most suitable tool for this aim.

Main purpose of organization of free economic zones is the promotion of economic development of a given region or industrial sector, in addition the use of free economic zones as a method of upgrading the regional economy in the period of transition to a market economy. It should be noted that free economic zones are used not only to attract foreign investment but also as a means of regional economic policy. International experience shows that if free economic zones are created in suitable region and have tax, custom preferences they will continue their activities by raising their share in GDP. For instance, free economic zone Manaus in Brazil produces almost half of domestic products in the region. Thanks to this new work places had been created. Wide range of electronic products had been produced and exported. Taking into account its beneficial sides, local government prolonged its activity and gave more preferences.

Observing international experience and analysing regions' socio-economic features and geographical conditions Uzbekistan has adopted several laws on creating favorable conditions for free economic zones. First time three free economic zones: Free Industrial Economic Zone Navoi, a special industrial zone Angren, a special industrial zone Djizak were created.

Free Industrial Zone Navoi was organized by the decree of the President of Uzbekistan 4059 of 02.12.2008 year [1]. It has special legal regime, including tax, currency and custom regimes, simplified procedure for entry stay and departure, as well as obtaining permits for employment non-resident citizens of the Republic of Uzbekistan. The main activity of business entities of this zone are to develop a wide range of high-tech industries, modern high-efficiency equipment and machinery, production lines and modules and innovative technologies.

Special industrial zone Angren and Djizak organized by the decree of the President of the Republic of Uzbekistan number 4436 of 13.04.2012 in the city of Tashkent region [2] and the presidential decree number 4516 of 18.03.2013,



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the Djizak in the field along with the branch of the district Syrdarya region respectively [3]. The main tasks and activities of these zones are considered to be creating an enabling environment to attract investment and effective operation of modern high-tech productions for competitive on the domestic and global markets products with high added value, providing integrated and effective use of production and resource potential of the region included in the special zones, deepening the process of localization of production of high- tech products based on local raw materials and provision of advanced development and efficient use of the transport, engineering, communications and social infrastructure. These special zones have tax incentives and preferences like income tax, property tax, the tax for the improvement and development of social infrastructure, single tax for small businesses as well as mandatory contributions to the Republican Road Fund. On top of that preferences in customs duties on the equipment, components and materials that are not produced in the country, imported into the territory of special economic zones on the list approved by the Cabinet of Ministers.

After successful beginning first step of creating process of free economic zones it comes turn to second step. The leader of country Shavkat Mirziyoyev has adopted presidential decree in 12.01. 2017 year about "Creation of free economic zones "Urgut", "G'ijduvon", "Qo'qon", and "Xazorasp" [4]. As mentioned in this decree these zones are created for:

- produce high added value competitive products, on base of local mineral resources, which are demanded in external market;
- attract local and foreign investment for deep reproduction of agrarian products with modern technology;
- organize favorable conditions for this activities;
- effective and complex use of productive, labour and resource potential of Samarkand, Xorazm, Bukhara and Fergana regions.

This gives wide range of opportunities for these regions to develop their local economy. New work places will be opened, entrepreneurs will widen their activities, local and foreign investment will be attracted.

In order to use resource and productive potential of Samarkand, Xorazm, Buxara and Fergana regions in these zones will be organized



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- deep reproduction, storage and packaging agrarian products, fruits and vegetables;
- to produce textile and carpet, shoes and leather products;
- ecologically safe chemistry, pharmaceutical, food and electronics industry;
- modern production trends of building materials.

It is also important to note that scientific-productive centre with international standards will be open to standardize, certify and marking products which will be produced in these free economic zones.

These free economic zones will continue their activities 30 years with probably further prolongation. There will be special tax, customs and currency regime in zones.

All administrative procedures will be realized on base of simplified "single window" system. Connection to transport, communications and other infrastructure will be supported by local government and higher governmental establishments. All of these preferences and simplified procedures are for the development of these regions by attracting foreign and domestic investment, especially direct investment.

The next step of development of free economic zones is creation of Seven free economic zones, specializing in production of pharmaceutical products. President of Uzbekistan Shavkat Mirziyoyev signed a decree "On creation of free economic zones Nukus-pharm, Zomin-pharm, Kosonsoy-pharm, Sirdaryo-pharm, Baisun-pharm, Bustonliq-pharm and Parkent-pharm". This decision was adopted to develop pharmaceutical industry of Uzbekistan and support producer of medicaments and medical products, saturate local market with high quality local medical products. Here it is also important to note that leader of country make this decision analyzing of local opportunities and demand of population. It logically can be called that third trend of "Action strategy" development of economy and liberalization goes under government control and support.

According to the decree, free economic zones Nukus-pharm, Zomin-pharm, Kosonsoy-pharm, Sirdaryo-pharm, Baisun-pharm, Bustonliq-pharm and Parkent-pharm are created in Uzbekistan. Zones are created in Jizzakh, Namangan, Syrdarya, Surkhandarya and Tashkent regions, as well as Karakalpakstan.

The president of country ordered to develop a program on creating industrial plantation and list of concrete types of medical plants, recommended for production with further deep processing and production of medicaments and dietary supplements in the territory of new free economic zones.

The decree said that modern production capacities on processing medical herbs and production of medicaments and medical products, auxiliary and packaging materials will be created in new zones. This will help to deepen localization of production of pharmaceutical products based on local medical herbs and materials. Economic zones created for 30 years with opportunity to extend it. Special tax, customs and currency regimes will be applied in new zones.

The participants will be exempted from payment of some taxes, mandatory payments and customs payments based on the size of their investments. The participants of the zones will receive access to road-transport and engineering-communication infrastructure.

President also recommended banks to provide loans to create new production capacities at these zones and production of medical herbs. If the project initiators have no enough resources to get the loans, the banks will supply equipment for leasing.

Overall, economic development of country takes it upward trend and organization of free economic zones have its share in this process. Up to date there were 7 free economic zones and seven more will be created in Uzbekistan. We may say that Uzbekistan has enough opportunity and favorable conditions for free economic zones.



**Figure 1.** Location of Free Economic Zones in Uzbekistan

Source: [www.invest.gov.il](http://www.invest.gov.il)



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Uzbekistan's approach to Free Economic Zones (FEZs) shares similarities with several countries in Euro-Asia. For instance, Kazakhstan has implemented Special Economic Zones (SEZs) with tax breaks and streamlined regulations, focusing on manufacturing, logistics, and technology (Yifan, 2015). Azerbaijan has established diverse FEZs to diversify its economy, offering tax holidays and infrastructure access, particularly in tourism, technology, and agriculture (Alizada, 2021). Similarly, Georgia has Free Industrial Zones (FIZs) with tax breaks, streamlined customs, and infrastructure support, emphasizing manufacturing, logistics, and technology (Gogishvili & Harris-Brandts, 2020). While Uzbekistan aligns with these approaches, it's crucial to recognize the unique economic and political contexts shaping each country's strategy. Uzbekistan and South Korea both leverage FEZs to attract foreign investment, yet key differences exist. Uzbekistan focuses on manufacturing, logistics, and technology, whereas South Korea prioritizes high-tech sectors like IT, biotech, and nanotech. Government involvement varies; Uzbekistan relies on state-owned companies, while South Korea's FEZs are mainly private-operated with government support (Clément, 2019). Regulatory environments differ; Uzbekistan's framework is evolving, presenting challenges, while South Korea benefits from established regulations (Ikramov et al., 2008). FEZs in Uzbekistan, Kazakhstan, Kyrgyzstan, and Tajikistan share commonalities but exhibit differences. Kazakhstan targets high-tech industries with a specific legal framework (Turgel et al., 2019). Kyrgyzstan focuses on manufacturing, agro-industry, and tourism with its legal framework (Vokhidova et al., 2019). Tajikistan concentrates on manufacturing, tourism, and agro-industry, governed by specific laws (Saidmurodov et al., 2019). Uzbekistan's FEZs, such as Navoi and Angren, have distinct economic focuses and operate under unique legal frameworks (Spechler, 2008). These variations highlight the diverse approaches across Central Asian countries. Spatial analysis of Uzbekistan's Free Economic Zones (FEZs) provides crucial insights into the distribution of economic activities and investment patterns, contributing to a comprehensive understanding of the spatial dynamics of development across the country. The strategic selection of FEZ locations takes into account factors such as natural resources, existing infrastructure, and market access, underlining the pivotal role



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of location as a determinant of economic performance. One of the notable findings of this spatial analysis is the industry clustering within FEZs, emphasizing their specialization in specific sectors. This concentration fosters agglomeration effects, promoting collaboration, knowledge sharing, and the development of robust supply chain networks. For instance, the Angren Free Economic Zone's focus on the automotive and pharmaceutical industries illustrates the potential for synergistic effects among firms within a specific sector. Such industry clustering enhances the overall competitiveness of Uzbekistan's economic landscape. Investment patterns across FEZs reveal insights into the allocation of resources and can guide policymakers in strategically supporting regions and industries that attract the most significant investments. The specialization of the Jizzakh Free Economic Zone in agriculture and food processing industries aligns with Uzbekistan's agricultural strengths, making it an appealing destination for investors in this sector. Spatial analysis further contributes to addressing regional disparities and promoting balanced development. For instance, the Urgut Free Economic Zone, despite its historical and cultural significance, has experienced limited economic development compared to other regions. This highlights the potential for targeted interventions and investments to unlock its economic potential. Drawing parallels with successful policies from other countries, such as China, the United Arab Emirates (UAE), and Malaysia, presents an opportunity for Uzbekistan to adapt and refine its own strategies. These countries have effectively utilized policies such as tax incentives, streamlined regulations, and infrastructure investments to attract foreign investment and stimulate economic growth. Uzbekistan can draw valuable lessons from these experiences, aligning policies with its unique economic and political circumstances. Incorporating geographic theories, including location theory, cluster theory, trade theory, and innovation theory, can further enhance the strategic development of Uzbekistan's FEZs. The "Location Quotient (LQ)" methodology emerges as a useful tool for identifying sectors where Uzbekistan holds a competitive advantage, guiding the development of specialized clusters within FEZs. Leveraging cluster theory can stimulate innovation, cost reduction, and improved competitiveness by fostering collaboration and knowledge sharing



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among related industries. Trade theory principles underline the importance of specialization in industries where Uzbekistan holds strengths, fostering a competitive edge in international trade. Moreover, to develop FEZs as innovation hubs, careful consideration of factors such as proximity to knowledge institutions, access to skilled labor, and financing availability is crucial. By strategically locating knowledge institutions and supporting research and development, Uzbekistan can cultivate an environment conducive to innovation within its FEZs. While this discussion highlights the potential benefits and strategic considerations, it's essential to acknowledge weaknesses and discrepancies. Unexpected results should prompt a reflection on alternative interpretations and avenues for further research. Additionally, the discussion emphasizes the importance of not exaggerating findings and maintaining a grounded interpretation rooted in data. Thus, spatial analysis and geographic theories offer a comprehensive understanding of Uzbekistan's FEZs dynamics, enabling policymakers to make informed decisions on resource allocation, regional development, and economic growth. By learning from successful policies and incorporating relevant theories, Uzbekistan can maximize the potential of its FEZs for sustainable development

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