"SPECIAL ECONOMIC ZONES AND FOREIGN DIRECT INVESTMENT: EVALUATING UZBEKISTAN'S FREE ECONOMIC ZONE MODEL"

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This article examines Uzbekistan's special and free economic zone (SEZ/FEZ) program as an instrument of foreign direct investment (FDI) policy since the 2017 liberalization reforms. Drawing on national investment data, OECD and UNCTAD assessments, and case evidence from the Navoi, Angren, and Jizzakh zones, the article argues that Uzbekistan's zone-based model has succeeded in concentrating capital, infrastructure, and tax incentives in a small number of high-performing locations, but has not yet resolved the structural weaknesses that constrain investment nationally. Navoi has developed into a logistics and high-technology hub anchored by an international air-cargo hub; Angren has diversified into food processing, building materials, and chemical manufacturing on the strength of its proximity to Tashkent; and Jizzakh, together with a growing network of smaller sector-specific zones, has extended the model into textiles, machinery, and pharmaceuticals. Despite this progress, four structural problems persist: a discretionary, case-by-case incentive regime that substitutes for systemic reform; residual currency and convertibility risk; a strong geographic concentration of investment in two or three zones; and weak contract enforcement and bureaucratic unpredictability that continue to be cited by investors as the leading obstacles to doing business. The article concludes that the zones have been a genuinely useful transitional tool, but that Uzbekistan's medium-term FDI targets will depend on extending zone-style reforms - tax simplicity, customs efficiency, and investor protection - into the national economy rather than treating them as enclaves.

What Are Special Economic Zones, and Why Did Uzbekistan Adopt Them?

A special or free economic zone is a defined territory within a country in which the government applies a distinct legal and fiscal regime - typically reduced or waived land, property, profit, and customs taxes - to attract investment, particularly from abroad, that would not otherwise locate there under the general national tax and regulatory code. The underlying logic is transitional: rather than reforming an entire economy's tax and customs system at once, a government carves out a smaller, more governable territory in which it can test and demonstrate a more liberal investment climate, while the surrounding economy continues to operate under older rules.

Uzbekistan adopted this model earlier than most of its other liberalization measures. The Navoi Free Economic Zone was established in 2008, well before the country's broader reform program began in 2017, and has since had its operating horizon extended to 2030. Angren followed as an industrial zone oriented toward the Tashkent metropolitan market, and Jizzakh was added with a branch in Sirdaryo region focused on mechanical and electrical engineering, textiles, and food processing. By April 2024, the zone network had expanded to more than twenty special economic zones nationwide, hosting 771 resident enterprises, alongside a further layer of smaller pharmaceutical-, agro-, and tourism-oriented zones such as Nukus-pharm, Bukhoro-agro, and the Charvak free tourist zone. This article asks a narrower and more testable question than whether the zone model exists: does it work, in the sense of delivering FDI at a scale and distribution consistent with Uzbekistan's national investment targets, and if not, what specifically is failing?

Why the Zone Model Matters for Uzbekistan's FDI Strategy

Uzbekistan's own Development Strategy for 2022-2026 sets a target of USD 70 billion in cumulative FDI inflows over the five-year period - a figure that implies a sustained multiple of the country's actual recent inflows. Official Uzbek data reported USD 7.2 billion in FDI for 2023 and USD 11.9 billion for 2024, while the UNCTAD World Investment Report, using a stricter balance-of-payments methodology, recorded net FDI inflows of USD 2.18 billion in 2023 and USD 2.84 billion in 2024. The gap between these two sets of figures is itself informative: it reflects differences in what counts as “investment” (gross committed capital versus net cross-border equity flows) and signals a broader transparency problem addressed later in this article. Even on the more generous national measure, Uzbekistan remains well behind the pace required to reach its five-year target, which is why the government continues to lean on the zone model as its primary lever for accelerating inflows without undertaking a full national tax and customs overhaul.

The zones matter empirically as well as rhetorically. They attracted UZS 6.3 trillion in capital investment in 2023 alone, and two zones - Navoi and Angren - together accounted for more than half of all zone-based investment between 2019 and 2023. Eighty-six percent of that investment went into manufacturing, a composition that reflects the zones' core purpose: converting tax relief into tradable-goods production rather than services or extraction. For a government trying to demonstrate progress toward its FDI targets in a compressed timeframe, the zones are the fastest available lever - but a lever concentrated in two locations cannot, by itself, carry a national investment strategy.

Case One: Navoi – the High-Technology and Logistics Anchor

Navoi is the flagship of Uzbekistan's zone program and the clearest illustration of what the model can achieve when infrastructure and incentives are aligned. The zone occupies 564 hectares roughly midway between Bukhara and Samarkand, and its defining asset is not a tax rate but a piece of physical infrastructure: an international multimodal air-cargo hub developed in partnership with Korean Air, whose processing capacity was expanded from an initial 300 tons per day to 1,000 tons per day, supporting cargo routes to destinations including Seoul, Shanghai, Milan, Dubai, and Moscow. This logistics capacity is what allows Navoi to host high-technology and export-oriented manufacturing that depends on fast, reliable freight connections rather than proximity to a domestic consumer market. The fiscal package reinforces this positioning. Resident enterprises in Navoi are exempt from land tax (assessed at roughly USD 1,500 per hectare under the general regime), pay a reduced 3.5 percent property tax and 9 percent profit tax against a considerably higher standard corporate rate, and benefit from an extended seven-year incentive period for direct investments between EUR 3 million and EUR 10 million. Foreign investors and their families are additionally eligible for a renewable three-year “investment visa,” a device aimed squarely at removing the residency friction that often accompanies large capital commitments in emerging markets. The result is a zone whose investment profile in 2023 was dominated by German capital (49.5 percent of that year's inflow), directed principally toward Navoi's manufacturing base, with Russian (20.5 percent) and Chinese (15.7 percent) capital following.

Case Two: Angren – Industrial Diversification Near the Capital

Angren occupies a different niche. Located in Tashkent region and covering 187.5 hectares, it was designed to exploit an existing industrial and energy base - two thermal power stations and a hydroelectric plant with a combined generating capacity well above local zone demand - rather than a greenfield logistics investment of the kind that defines Navoi. Its resident mix accordingly leans toward building materials, chemical products, and mechanical-engineering processing of raw materials, sectors that benefit from reliable, low-cost power and proximity to the Tashkent consumer and industrial market rather than air-freight access. The clearest recent illustration of Angren's model is a USD 125 million project by Mareven Food Holdings, a Vietnamese-Japanese consumer goods group, to build what is planned as Uzbekistan's largest instant-noodle, pasta, sauce, and beverage production complex, creating more than 800 jobs on a build-out running from 2023 to 2031. The project - initiated through a memorandum of understanding signed in September 2022 - is instructive precisely because it is not a high-technology investment: it demonstrates that the zone model in Angren is being used less to attract frontier industries than to formalize and scale up mid-market manufacturing that might otherwise have located informally or in a neighboring country with a simpler tax code.

Case Three: Jizzakh and the Expanding Zone Network

Jizzakh, with an operating branch in Sirdaryo region, extends the model into mechanical and electrical engineering, textiles, and food processing, and represents the government's attempt to replicate Navoi- and Angren-style incentives outside the Tashkent-Bukhara-Navoi corridor. Alongside Jizzakh, the government has layered on a growing set of narrower, sector-specific zones - pharmaceutical zones in Nukus, Zomin, Kosonsoy, Sirdaryo, Boysun, Bustonlik, Parkent, and Andijan; an agro-processing zone in Bukhara; and tourism-oriented zones at Charvak, Beldirsoy, and Amirsoy - alongside trade and logistics zones in Urgut, Kokand, Namangan, and Termez.

This proliferation reflects a genuine policy ambition to distribute the zone model's benefits more evenly across regions and sectors. But the underlying investment data show that ambition has not yet translated into distributed results: with Navoi and Angren still capturing more than half of all zone-based capital in the most recent five-year window for which data are available, the newer zones remain, for now, a wide but shallow layer relative to the two established anchors.

National Trends Shaping Uzbekistan's Investment Climate

Several structural forces are shaping how the zone model interacts with the broader economy. First, the total stock of accumulated FDI reached an estimated USD 14.8 billion by the end of 2023, equivalent to roughly 16.3 percent of GDP - a moderate figure by regional standards that leaves considerable room for growth if structural barriers are addressed. Second, the composition of investment is narrowing around a small number of source countries: Chinese capital now accounts for more than 65 percent of Uzbekistan's total FDI stock, with South Korea, Russia, Kazakhstan, and Turkey supplying most of the remainder, a concentration that carries its own geopolitical and financing-cost risks. Third, large single-project investments continue to do disproportionate work in the national totals. The USD 2.4 billion, 1.5-gigawatt wind power project developed by Saudi Arabia's ACWA Power in Karakalpakstan - among the largest wind investments globally - illustrates how a handful of energy-sector megaprojects can move the national FDI figure independently of whether the broader zone and business-registration reforms are functioning well. Fourth, the OECD's 2025 investment policy review notes that mergers and acquisitions remain a comparatively small share of inbound investment, a legacy of Uzbekistan's still-large state-owned enterprise sector; as privatization proceeds, M&A activity is beginning to grow, which the OECD identifies as a leading indicator of a maturing investment climate rather than one still dependent on greenfield concessions inside zones.

Current Problems in Uzbekistan's SEZ and FDI Model

1. "Discretionary, Case-by-Case Incentive Management"

The U.S. Department of State's most recent investment climate assessment identifies a specific structural weakness: the government's practice of granting incentives selectively, on a case-by-case basis, rather than through a uniform, predictable rule set. This approach can accelerate individual high-profile projects, but it slows the broader reform process, since officials have less incentive to simplify the general tax and customs code when large investors can simply be offered a bespoke package instead. The zone model, in this reading, functions partly as a substitute for national reform rather than a stepping-stone toward it.

2. "Currency and Convertibility Risk"

Uzbekistan's 2017 decision to float the sum and unify its exchange rate removed the most severe distortions that had discouraged foreign investment through the mid-2010s, and it remains the single most important reform underlying the FDI growth documented in this article. Residual risk nonetheless persists: the sum has continued to depreciate against major currencies in the years since liberalization, and investors in zone-based manufacturing - who typically import capital equipment and export finished goods - remain exposed to currency movements between the time a project is capitalized and the time its output is sold, particularly for the many resident firms whose revenue is partly denominated in sum through domestic sales.

3. "Concentration and Regional Inequality"

The same data that make Navoi and Angren useful case studies also describe a structural imbalance: two zones out of more than twenty have absorbed over half of all zone-based investment since 2019. Regions without an equivalent logistics asset (Navoi's air-cargo hub) or energy base (Angren's power stations) struggle to compete for the same category of investor, even where the tax incentives on offer are formally identical. This mirrors, and arguably reinforces, broader regional income disparities in Uzbekistan rather than correcting them.

4. "Bureaucratic Unpredictability and Weak Contract Enforcement"

Beyond the incentive regime itself, investors operating both inside and outside the zones continue to cite unpredictable administrative decision-making, slow customs processing for goods not explicitly covered by zone privileges, and limited recourse when disputes arise with state-linked counterparts. Because many of the government's most significant recent projects - including the ACWA Power wind development - involve substantial state co-investment or state guarantees, the line between public and private risk remains blurred in ways that complicate independent investor due diligence.

Solutions and the Path Forward

Four responses correspond to the problems above and are already visible, in partial form, in current Uzbek policy. First, the OECD's 2025 roadmap for Uzbekistan explicitly recommends replacing discretionary, case-by-case incentive grants with a codified, rules-based investment law that applies uniformly regardless of an investor's size or political access - a shift that would preserve the zones' fiscal advantages while reducing the administrative unpredictability that surrounds them.

Second, continued deepening of the foreign-exchange market - rather than a return to administrative rate management - remains the most credible way to reduce residual currency risk; the direction of travel since 2017 has been consistently toward greater market determination of the exchange rate, and sustaining that trajectory matters more to investor confidence than any single policy announcement.

Third, addressing zone concentration will require the government to replicate Navoi's and Angren's core advantage - infrastructure, not just tax relief - in additional regions, since fiscal incentives alone have proven insufficient to redirect investment away from the two anchor zones. The expansion of the pharmaceutical- and agro-zone network suggests the government recognizes this, but infrastructure investment of the scale seen at Navoi's air-cargo hub has not yet been replicated elsewhere.

Fourth, the gradual increase in merger-and-acquisition activity that the OECD associates with ongoing state-owned enterprise privatization is likely to do more for investor confidence in contract enforcement than any zone-specific measure, since M&A transactions typically require exactly the kind of independent legal and regulatory infrastructure - clear title, enforceable contracts, credible courts - that zone incentives alone cannot substitute for.

Conclusion

Uzbekistan's special and free economic zones have done what they were designed to do: concentrate capital, tax relief, and infrastructure investment in a small number of locations capable of absorbing large-scale manufacturing and logistics projects quickly, without waiting for a full national tax and customs overhaul. Navoi's air-cargo-anchored high-technology cluster, Angren's power-based industrial diversification, and Jizzakh's extension of the model into textiles and engineering together demonstrate that the approach can work at the level of an individual zone. What the data do not yet show is a successful transition from zone-based enclaves to a national investment climate capable of meeting Uzbekistan's own five-year FDI targets. The structural problems - discretionary incentive management, residual currency risk, geographic concentration, and uneven contract enforcement - are well identified by both Uzbek and international assessments, and the credible solutions already exist in the country's own reform roadmap.

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