



Article

# Characteristics of The Development of Free Economic Zones in Uzbekistan

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**Abstract:** Especially in the context of globalization and increasing regional competition, free economic zones serve as one of the engines to promote regional development and investment promotion in Uzbekistan. While free economic zones have gained considerable importance, the majority of studies cite the effectiveness of free economic zones through only investment and export indicators, so their impact on regional economic development through the prism of digital governance and administrative efficiency have been given limited consideration. The purpose of this study is identifying the features of cluster and digital governance indicators in the formation of regional development based on free economic zones in Uzbekistan. This paper proposes an econometric approach to assess the effectiveness of attraction of investments in free economic zones, as well as a composite index to analyze the two-way relative statistical dependence between digital governance, investment attraction by free economic zones and economic development of regions in the context of transformational changes. According to the results, it is mentioned in the study that free economic zones have a positive impact on regional economic development as it increase inflow of investment, diversify industrial production as well as technology transfer and employment generation. These findings suggest that the success of free zones depends not only on tax breaks and infrastructure but vital governance, bureaucratic efficiency, and e-governance systems. This study demonstrates that free economic zones are to be seen as digitally governed platforms of development facilitating investment diffusion and regional economic integration. The findings yield practical implications for refining digital governance mechanisms and enhancing the role of FEZs in sustainable regional development.

**Keywords:** Globalization, diversification, technology transfer, innovative cooperation, employment multiplier, local industrial area, locomotive regions, econometric model, diffusion rate, composite index.

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## 1. Introduction

In the global economy, as capital, technology, and production chains become increasingly transnational, competition among regions is becoming even more intense than competition among countries. Investment flows are now being located not according to overall macroeconomic stability, but based on the institutional conditions created in a specific region-logistics, administrative speed, legal clarity, and service convenience [1]. From this perspective, free economic zones (FEZs) assume special importance as a dedicated economic platform that makes regions attractive to global capital. In the context of regional imbalances, industrial concentration, and investment centralization, SEZs are emerging as one of the most effective instruments for spatially balancing economic growth.

Therefore, scientifically studying and substantiating their role in regional development becomes a pressing issue [2].

- regional GDP and industrial production grow;
- the export structure diversifies, and the share of high value-added products increases;
- new jobs are created and people's incomes increase;
- technology transfer and innovative cooperation develop;
- the economic gap between regions narrows.

For this reason, SEZs are considered not a separate instrument of regional economic policy, but a central element of a comprehensive development strategy. The role of SEZs in the regional economy is explained by a number of economic theories.

According to F. Perroux's [3] theory of growth poles, economic activity expands around centers of development. According to P. Krugman [4], new economic geography holds that the spatial concentration of production is determined by transportation costs and market size. D. North [5] argues that clear and simplified rules in the institutional economy increase investment activity. Clustering theory, proposed by M. Porter [6], suggests that regional cooperation enhances competitiveness.

Economists in CIS countries interpret free economic zones as instruments for regional industrialization and the development of export-oriented production. In particular, Russian economist E.G. Animitsa [7] evaluates EIZs as an "accelerated development institution" of the regional economic system, emphasizing that they facilitate production modernization and the diffusion of new technologies. In his view, the economic activity generated within the zone has a multiplier effect on the entire regional economy through transportation, service, and local cooperation ties.

Additionally, V.N. Leksin and A.N. Shvetsov [8] explain special economic zones in regional development theory as a tool of the state's selective regional policy. According to their approach, EIZs reduce economic imbalances by redistributing investments across regions and lay the groundwork for the formation of industrial clusters.

For this reason, SEZs are viewed not only as a mechanism for attracting investment but also for ensuring regional macroeconomic balance.

Kazakhstani economists, for example, A.A. Satpayeva [9], emphasize that the primary function of EIZs is to increase export potential and accelerate integration into global value chains. According to him, simplified customs and logistics procedures in EIZs turn the region into a hub for foreign trade and increase regional competitiveness.

Uzbek economists assess FEZs as the main institutional mechanism of economic modernization and regional development policy. According to B. Abdurahmonov [10], free economic zones increase employment and strengthen regional economic stability by diversifying industrial production across regions. He interprets SEZs as "locomotive regions" that attract new technologies.

S. Nabiev [11], on the other hand, explains the operation of SEZs in relation to the investment environment and institutional reforms, emphasizing that the simplified management procedure and system of incentives increase entrepreneurial activity. According to him, EIZs strengthen cooperation between small businesses and large industry, deepening regional economic integration.

## 2. Methodology

This analysis finds a theoretical and analytical solution to the research problem of evaluating the development characteristics and regional economic impact of free economic zones of Uzbekistan. Abstract The research, in terms of theory and concepts, is based on the concepts of regional development, institutional economics, growth poles theory and cluster theory to better understand free economic zones as instruments of investment

attraction and regional economic modernization. The approach centers on analysing the linkages between digital governance instruments and investment trajectories at the regional level.

In this research, qualitative and quantitative methods are used. Free economic zones economy performance is evaluated from the perspective of statistical data on regional economic indicators in terms of industrial production, investment volume, employment and export activity [12]. The tool of comparative analysis is used to identify the differences that exist in regional development and the geo-spatial arrangement of free economic zones. Focused on non-resource aspects of building institutional and administrative factors such as service efficiency, permitting processes, logistics accessibility, and digital public services.

The paper constructs a composite index of the level of digital governance, administrative efficiency and investment attractiveness to then evaluate free economic zones using a multi-criteria decision analysis approach. The index incorporates electronic services-related indicators, indicators for the electronic speeding up of administrative transactions, indicators for the availability of tangible infrastructure and applicable supportive mechanisms for investors. This study investigates the relationship between indicators of digital governance, investment inflows, and the growth of regions using an econometric approach.

Such a methodological approach allows assessing free economic zones not merely as subsidized industrial sites but rather as comprehensive development platforms contributing to regional growth by inducing investments, technological upgrades, and labor market expansion.

### 3. Results and Discussion

Practice shows that although free economic zones are being used in many countries as an effective tool for attracting investment and accelerating industrialization, their real impact on regional development does not always yield stable and evenly distributed results. Often, production volume and exports increase in FZs, but this growth does not fully diffuse into the regional economy: local cooperation remains weak, small business integration is slow, and the employment multiplier fails to materialize to the expected extent [13]. The main reason for this is that the operation of SEZs is explained more by fiscal incentives and infrastructure, while the impact of administrative efficiency and service speed on economic outcomes has not been adequately assessed.

In our opinion, it is not enough to interpret free economic zones solely as a territory granted privileges or as a tool for attracting investment. In the context of the modern global economy, SEZs are a complex system for managing regional development, where the primary role is not played by fiscal preferences, but rather by the quality of governance, the speed of service delivery, and the efficiency of digital institutions. In other words, an investor's decision is becoming less dependent on the tax rate and more on the speed of obtaining permits, data transparency, logistical efficiency, and the integration of government services.

Therefore, the impact of EIZs on the regional economy is not direct but emerges through a step-by-step mechanism: Digital governance reduces transaction costs, which increases the flow of investment; investment, in turn, expands production and cooperation, leading to growth in employment and regional incomes [14]. Thus, the true effectiveness of the EIZ is determined not by the amount of capital attracted, but by its degree of diffusion into the regional economy.

According to this approach, it is appropriate to assess the EIZ not as a "local industrial zone," but as a "digitally governed development platform." In this approach, the database, electronic services, and integrated management system created within the zone unite all entities of the regional economic system into a single economic space. As a result,

the SEZ becomes not a separate element of regional economic policy, but an institutional mechanism that coordinates investment, industrial, and innovative development.

However, practice shows that while free economic zones are used in many countries as an effective tool for attracting investment and accelerating industrialization, their real impact on regional development does not always yield stable and evenly distributed results. Often, production volume and exports increase in FZs, but this growth does not fully diffuse into the regional economy: local cooperation remains weak, small business integration is slow, and the employment multiplier fails to materialize to the expected extent. The main reason for this is that the activity of EIZs is explained more by fiscal incentives and infrastructure, while the impact of administrative efficiency and service speed on economic outcomes has not been adequately assessed.

In the digital economy era, the factors influencing investor decisions are fundamentally changing: In attracting capital, it is not tax preferences but rather the speed of permitting, data openness, electronic customs, online contracting, and the integration of government services that are of crucial importance [15]. Nevertheless, existing scientific studies primarily assess the effectiveness of EIZs based on investment volume or export indicators, without examining the causal impact of digital governance mechanisms on regional economic outcomes as an integrated system. As a result, the interrelationship of “digitization → investment → regional development” lacks a clear methodological model.

Therefore, the scientific problem is that there is no single theoretical framework to assess the impact of digital governance mechanisms determining the efficiency of investment attraction in free economic zones on regional economic growth and employment. -methodological approach and econometric model have not been sufficiently developed. This research is aimed at filling this gap by developing a composite index that evaluates the effectiveness of investment attraction in free economic zones through the level of digital governance, It proposes to develop a composite index to assess the effectiveness of investment attraction in free economic zones based on the level of digital governance, econometrically model its impact on regional economic growth through investment flows, and offer practical management mechanisms for forecasting. In the context of globalization, the liberalization of capital movement, and the trans nationalization of production chains, free economic zones (FEZs) have become one of the most important institutional instruments for regional economic growth. In the modern economy, investments no longer select a short list of destinations, as much as a package of conditions: logistics, customs clearance time, certainty of law, quality of service, and even the level of digital governance. Put differently, this is why EIZs provide a platform to integrate the region in global value chains by establishing regulations in a microeconomic environment that are more streamlined, faster acting and not as politically charged as the countrycode general economic policy that typically evolve over time and without clear rules for investors.

❖ First, EIZs spatially diversify investment flows in the region. Investments are typically concentrated in the capital or major centers, resulting in an increased economic disparity between regions. An EIZ channels capital to economically underdeveloped regions through tax incentives, land infrastructure, and an expedited permitting system. This leads to regional GDP growth, the territorial expansion of industrial production, and the formation of new manufacturing clusters. As a result, the EIZ functions as a “growth pole” in the regional economy.

❖ Secondly, EIZs serve as a technological catalyst for industrial modernization. Transnational corporations typically introduce advanced manufacturing technologies through EIZs, as customs and certification requirements are simplified in these zones and export-oriented production is supported. As a result of technology transfer, local enterprises enter into cooperation, the subcontracting system develops, and innovative competencies diffuse throughout the region. This process increases the region's overall productivity.

❖ Third, EIZs are an institutional driver of employment and income growth. Each major project entering the EIZ not only creates direct jobs but also generates a multi-fold multiplier effect in the logistics, service, construction, transport, and service sectors. As a result, residents' incomes rise, domestic demand expands, and small businesses develop. For this reason, EIZs activate not only industry but the entire regional economic ecosystem.

❖ Fourth, EIZs bring the region into external economic integration by increasing its export potential. Typically, EIZ residents engage in export-oriented manufacturing and produce products that meet international standards. This shifts the region's export structure from a raw material model to one of processed, high-value-added products. As a result, the region's foreign exchange earnings stabilize and its current account balance improves (Figure 1).



**Figure 1. The Role and Importance of Free Economic Zones in Regional Economic Growth**

❖ Fifth, at the current stage, the importance of EIZs is sharply increasing, especially with digital transformation. Electronic customs, one-stop-shop, online permits, investor service CRM systems, and data integration drastically reduce transaction costs. Digital governance is what the investor cares most—reducing time and uncertainty. Hence, the EIZ today competes less due to tax breaks than the efficiency of its management in the digital field.

❖ This paradigm illustrates systemic chain on the basis of which free economic zones affects to regional economy. The EIZ acts as a growth pole, leveraging incentives, infrastructure and digital governance in this model. Invested means production expansion, promotion of technology transfer, and establishment of partner contacts. This leads to more jobs, higher wages, and a greater demand for goods and services.

❖ Bilateral investment regime on scheme also indicative of multiplier effect: its the channeling of economic within the zone that passes through the transport and service and small business sectors that will create the regional economic growth. In the end, better export opportunities are created, which allows the region to integrate into global value chains. Thus the SEZ acts as an institutional mechanism that starts the investment → production → employment → income → development chain in the regional economy.

#### 4. Conclusion

Thus, in the context of global economy, free economic zones perform three functions in the regional economy: the attraction of capital, the introduction of technology, and the speeding up of regional development. NEA is not an independent tool of regional economic policy but a system of development mechanism in all-important aspects including investment, industrial, and innovation policies. In short, connecting the region to global production chains, EIZs guarantee sustainable and diversified regional economic growth.

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