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# Activities, Directions and Key Indicators of Free Economic Zones in the Republic of Uzbekistan

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**Abstract:** This article analyzes the activities, development directions and key performance indicators of free economic zones in the Republic of Uzbekistan. In the context of economic liberalization, regional industrialization and growing competition for foreign direct investment, free economic zones have become an important mechanism for attracting capital, expanding export-oriented production, creating new jobs, modernizing industrial infrastructure and reducing regional economic disparities. The study examines the institutional role of free economic zones in Uzbekistan's industrial policy and evaluates their contribution to investment attraction, industrial output, export diversification, employment generation, infrastructure development and regional competitiveness. The article argues that the effectiveness of free economic zones should not be measured only by the number of established zones or the amount of tax privileges granted to residents. A more comprehensive assessment requires the analysis of investment quality, production efficiency, export performance, technological modernization, integration with local enterprises and contribution to sustainable regional development. Based on official statistical information and international methodological approaches, the paper proposes a system of key indicators for evaluating the performance of free economic zones in Uzbekistan.

**Keywords:** free economic zones, special economic zones, Uzbekistan, investment, industrial policy, export diversification, regional development, industrial zones, performance indicators.

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## 1. Introduction

Free economic zones are one of the most widely used instruments of modern industrial and regional economic policy. They are created to form a more favorable business environment within a geographically defined territory by providing special legal, administrative, customs, tax and infrastructure conditions for investors. In many developing and transition economies, free economic zones are used to accelerate industrialization, attract foreign direct investment, expand exports, create employment and stimulate technological modernization [1].

For Uzbekistan, the development of free economic zones is closely connected with the broader strategy of economic liberalization, industrial diversification and regional development. Since the country entered a new stage of reforms, special attention has been paid to improving the investment climate, reducing administrative barriers, developing industrial infrastructure and creating favorable conditions for private entrepreneurship. In this process, free economic zones have become practical platforms for implementing

investment projects, developing export-oriented production and strengthening the economic potential of regions [2].

The importance of this topic is determined by several factors. First, regional economic development in Uzbekistan requires new mechanisms for attracting capital and creating industrial growth points outside the capital city and major urban centers. Second, the development of export-oriented manufacturing is essential for reducing dependence on raw materials and increasing the share of high-value-added products in foreign trade. Third, the effective functioning of free economic zones can contribute to employment growth, local supplier development, technology transfer and infrastructure modernization. Fourth, the growing number of special economic zones, small industrial zones, technology parks, clusters and youth industrial zones creates the need for a systematic assessment of their performance [3].

The objective of this article is to analyze the activities, development directions and key indicators of free economic zones in the Republic of Uzbekistan. To achieve this objective, the article addresses the following research tasks: to examine the institutional and economic role of free economic zones; to identify the main directions of their activity; to analyze their key performance indicators; and to propose methodological approaches for improving the evaluation of their effectiveness.

## 2. Methodology and Literature Review

This research is based on qualitative and analytical methods, including systemic analysis, comparative analysis, structural analysis, institutional analysis and statistical generalization. The systemic approach allows free economic zones to be examined not as isolated territories, but as elements of a broader regional economic system that includes investors, local enterprises, labor markets, infrastructure networks, educational institutions and public administration bodies. The comparative approach is used to evaluate changes in the number, structure and performance of economic zones over time. The institutional approach focuses on legal regulation, governance quality, investment incentives and administrative mechanisms.

The theoretical basis of the study is formed by the concepts of regional development, industrial policy, export-led growth, investment attraction and structural transformation. According to regional development theory, economic growth is not evenly distributed across territories, and therefore targeted policy instruments are needed to stimulate investment and production in less developed regions. Free economic zones are one such instrument because they concentrate infrastructure, incentives and administrative support in specific locations.

Industrial policy theory emphasizes the role of the state in creating conditions for new industries, technological upgrading and export diversification. From this perspective, free economic zones are not merely tax-privileged territories, but institutional platforms for developing industrial clusters, attracting technology-intensive projects and integrating domestic enterprises into global value chains. Export-led growth theory also supports the idea that zones may help firms enter international markets by reducing transaction costs, improving logistics and providing simplified customs procedures.

International literature shows that the performance of free economic zones differs significantly across countries. Some zones have become engines of industrialization and export growth, while others have remained weak enclaves with limited links to the domestic economy. Farole and Akinci (2011) argue that the success of special economic zones depends on location, infrastructure, governance, investment climate and linkages with local firms. UNCTAD (2019) notes that special economic zones should increasingly adapt to sustainable development, digital transformation and new patterns of global

production. Porter's cluster theory also suggests that territorial competitiveness depends on the interaction of firms, suppliers, institutions, infrastructure and innovation capacity.

In the case of Uzbekistan, free economic zones are increasingly viewed as instruments of regional industrialization and investment attraction. The legal and institutional framework has been strengthened through the adoption of the Law 'On Special Economic Zones', which regulates the organization, functioning and development of special economic zones. This legal framework provides the basis for defining the rights and obligations of residents, the powers of administrative bodies, the procedure for selecting investment projects and the system of preferences for zone participants.

### 3. Results and Discussion

#### 1. Institutional development of free economic zones in Uzbekistan

The formation of free economic zones in Uzbekistan has passed through several stages. The first stage was connected with the establishment of the Navoi Free Industrial Economic Zone, which was designed to develop industrial production and logistics potential. Later, the Angren and Jizzakh special industrial zones were created to attract investment into manufacturing, transport, construction materials, chemicals and other sectors. In subsequent years, new zones such as Urgut, Gijduvan, Kokand, Khazarasp, Termiz, Sirdaryo, Namangan and Bukhoro-agro were established to expand industrial production and strengthen regional economic specialization.

The institutional expansion of free economic zones reflects Uzbekistan's transition from isolated investment areas to a more diversified system of industrial and regional development platforms. These zones differ by sectoral specialization, geographic location and development objectives. Some zones are focused on general industrial production, while others are specialized in pharmaceuticals, agriculture, tourism, logistics or fishery-related production [4].

The adoption of the Law 'On Special Economic Zones' created a unified legal basis for the functioning of zones. It defines special economic zones as territories with a special legal regime established to attract investment, develop production and create favorable conditions for business activity. The law also regulates the establishment of zones, the activities of administrative councils, the selection of investment projects, the rights of residents and the provision of tax, customs and other preferences.

The institutional importance of free economic zones in Uzbekistan can be explained by their role in solving several economic tasks. They help attract capital to regions, create modern industrial infrastructure, stimulate private entrepreneurship, develop export-oriented production, increase employment and improve the investment image of the country. In addition, they create conditions for the formation of industrial clusters and cooperation between large enterprises and small and medium-sized businesses.

#### 2. Main directions of free economic zone activity

The activities of free economic zones in Uzbekistan can be classified into several main directions.

The first direction is industrial production. This includes zones such as Navoi, Angren, Jizzakh, Urgut, Gijduvan, Kokand, Khazarasp, Termiz, Sirdaryo and Namangan. These zones are mainly oriented toward the production of electrical equipment, construction materials, chemical products, textiles, machinery, food products, furniture, metal products and other manufactured goods. Their main objective is to increase the share of manufacturing in regional economies and reduce dependence on raw material exports.

The second direction is pharmaceutical production. Pharmaceutical zones such as Nukus-pharm, Zomin-pharm, Kosonsoy-pharm, Sirdaryo-pharm, Boysun-pharm, Bustonlik-pharm, Parkent-pharm and Andijon-pharm are designed to develop domestic

production of medicines, medical products and pharmaceutical substances. This direction is especially important for import substitution, health security and the development of high-value-added production.

The third direction is agro-industrial development. Zones such as Bukhoro-agro are focused on the processing, storage, packaging and export of agricultural products. Agro-industrial zones are important for regions with strong agricultural potential because they allow raw agricultural products to be transformed into higher-value processed goods. This contributes to food security, rural employment and export diversification.

The fourth direction is tourism and service development. The Charvak free tourist zone is an example of a zone oriented toward tourism infrastructure, recreation, hotel services and related service sectors. This direction is important because tourism zones can create new jobs, attract private investment and increase regional income through service exports [5].

The fifth direction is logistics and export infrastructure. Some economic zones are located near major transport corridors, railways, highways, airports and customs infrastructure. Their location allows enterprises to reduce transport costs, simplify export procedures and improve access to foreign markets. The logistics function is particularly important for landlocked countries such as Uzbekistan, where transport costs play a significant role in export competitiveness.

### 3. Key indicators of free economic zones in Uzbekistan

The expansion of free economic zones in Uzbekistan can be assessed through several key indicators: number of zones, number of enterprises, industrial output, export volume, employment, investment volume, technological structure and infrastructure development.

As of January 1, 2024, 766 industrial-zone structures had been created in Uzbekistan, including 24 special economic zones, 532 small industrial zones and 210 youth industrial and entrepreneurial zones. This indicates that the country has formed a broad institutional network for territorial industrial development. The expansion of such zones shows the increasing role of industrial policy in regional economic modernization.

More recent data for the first quarter of 2026 show further expansion of the system of preferential production areas. According to statistical reporting, as of April 1, 2026, Uzbekistan had 33 special economic zones, 396 small industrial zones, 27 technoparks, 349 clusters and 143 youth industrial and entrepreneurial zones operating with active enterprises. Industrial output in special economic zones reached 14,000.6 billion soums in January-March 2026, compared with 10,652.9 billion soums in the same period of the previous year. This represents a 31.4 percent year-on-year increase [6].

These figures show that special economic zones are becoming an increasingly important component of the national industrial system. However, quantitative growth alone does not fully reflect effectiveness. The quality of investment, export orientation, technological level and integration with the local economy are equally important.

Table 1

#### Key indicators for assessing free economic zones in Uzbekistan

Indicator block	Key indicators	Economic meaning
Institutional scale	Number of SEZs, small industrial zones, technoparks, clusters and youth industrial zones	Shows the breadth of the industrial-zone system
Investment activity	Total investment, foreign direct investment, domestic investment, number of investors	Measures the ability of zones to attract capital

Production performance	Industrial output, value added, capacity utilization, sectoral structure	Reflects real economic activity and industrial modernization
Export performance	Export volume, export growth, export destinations, share of value-added exports	Evaluates external competitiveness
Employment effect	Jobs created, average wages, labor productivity, skilled labor share	Measures social and labor-market impact
Innovation capacity	Technology adoption, R&D activity, digitalization, cooperation with universities	Shows modernization and knowledge-transfer potential
Infrastructure development	Roads, electricity, gas, water, logistics, customs facilities, digital connectivity	Indicates business-environment quality
Local linkages	Local suppliers, SME participation, cooperation with regional enterprises	Measures spillover effects for the domestic economy
Fiscal efficiency	Tax revenues, customs effects, public infrastructure costs	Evaluates public cost-benefit balance
Sustainability	Resource efficiency, environmental standards, green technologies	Assesses long-term sustainable development

#### 4. Investment attraction and industrial modernization

Investment attraction is one of the primary functions of free economic zones. Investors are more likely to enter territories where land, infrastructure, administrative services and legal guarantees are available. Free economic zones reduce investment risks by providing a special regime and concentrating public support in a clearly defined area [7].

In Uzbekistan, investment attraction through free economic zones is especially important for regions that need industrial diversification. Zones allow regional economies to move beyond agriculture or raw material dependence and develop manufacturing sectors. This contributes to structural transformation, productivity growth and job creation.

However, the developmental quality of investment should be emphasized. High-quality investment introduces modern equipment, creates stable jobs, increases exports and develops local suppliers. Low-quality investment may depend mainly on tax preferences and may not produce significant spillover effects. Therefore, investment projects in free economic zones should be selected not only according to financial volume but also according to their technological level, export potential and contribution to regional development [8].

Industrial modernization is another important outcome of free economic zones. Enterprises located in zones may introduce new machinery, production standards, quality control systems and digital technologies. These changes can increase productivity and improve competitiveness. However, technology transfer becomes stronger when zone enterprises cooperate with local suppliers, universities, vocational institutions and research centers.

#### 5. Export diversification and global market integration

Free economic zones are often created to support export-oriented production. They can reduce transaction costs for exporters by providing customs preferences, logistics infrastructure, simplified procedures and access to industrial land. In Uzbekistan, export diversification is one of the most important objectives of industrial policy because it helps

reduce vulnerability to raw material price fluctuations and strengthens the country's position in global markets.

The export potential of free economic zones should be evaluated not only by total export volume but also by the structure and geography of exports. A strong export-oriented zone should produce value-added goods, enter multiple foreign markets and meet international quality standards. Export diversification also requires certification, packaging, marketing, logistics and trade-support services [9].

If free economic zones mainly produce goods for the domestic market, their contribution to global competitiveness remains limited. Therefore, the development of export support mechanisms is necessary. These mechanisms may include assistance in obtaining international certificates, participation in trade fairs, digital export platforms, export financing, logistics subsidies and cooperation with foreign distributors.

### **6. Employment creation and human capital development**

Employment creation is one of the most visible social effects of free economic zones. Zone-based enterprises create direct jobs in manufacturing and services, while indirect employment is generated through construction, transport, logistics, catering, maintenance and local supply chains. This effect is particularly important for regions with a young labor force and limited industrial employment opportunities.

However, the quality of employment is as important as the quantity of jobs. Free economic zones should not be limited to low-skilled and low-wage employment. Their long-term contribution depends on whether they develop skilled labor, engineering competencies, technical specialization and modern management practices. Therefore, employment indicators should include not only the number of jobs created but also average wages, labor productivity, worker qualifications and training opportunities [10].

Cooperation with educational institutions is essential for human capital development. Universities, technical schools and vocational training centers can prepare specialists according to the needs of free economic zone residents. Such cooperation helps reduce skill shortages and increases the regional impact of zones.

### **7. Infrastructure and regional development effects**

Infrastructure is one of the main factors determining the success of free economic zones. Investors require stable electricity, gas, water, roads, communication networks, logistics centers, customs facilities and industrial land. If these elements are insufficient, investment projects may be delayed or become less competitive.

In Uzbekistan, the development of free economic zones has contributed to the modernization of regional infrastructure. Roads, engineering networks and logistics facilities built for zone residents may also benefit surrounding communities and local businesses. This creates wider regional spillover effects [11].

The location of free economic zones should correspond to regional comparative advantages. Agro-industrial zones should be located in regions with strong agricultural resources. Logistics zones should be connected to transport corridors. Tourism zones should be close to natural and cultural attractions. Industrial zones should have access to labor, raw materials, energy and transport infrastructure. Such specialization increases the efficiency of zones and strengthens their contribution to regional development.

### **8. Problems limiting the effectiveness of free economic zones**

Despite significant progress, several problems may limit the effectiveness of free economic zones in Uzbekistan.

First, infrastructure in some zones may remain incomplete or unevenly developed. Problems with electricity, gas, water supply, internal roads or logistics facilities can reduce investor confidence and delay project implementation.

Second, export orientation is not always sufficient. Some residents mainly serve the domestic market, which limits the role of zones in export diversification and foreign exchange earnings [12].

Third, the share of high-technology production remains relatively limited. Many projects are based on traditional manufacturing, while innovation-intensive and knowledge-based industries require stronger support.

Fourth, linkages with local enterprises and small businesses are sometimes weak. If zone residents import most inputs and operate separately from the domestic economy, the multiplier effect of zones becomes limited.

Fifth, monitoring and evaluation systems need further improvement. The effectiveness of free economic zones should be assessed through transparent indicators, regular reporting and comparison of planned and actual results.

### **9. Directions for improving free economic zone performance**

To increase the effectiveness of free economic zones in Uzbekistan, several measures are recommended.

First, the evaluation system should be improved. Each zone should be assessed through a set of indicators covering investment, production, exports, employment, infrastructure, innovation, fiscal efficiency and local linkages [13].

Second, export-oriented projects should be prioritized. Residents with strong export potential, value-added production and access to foreign markets should receive targeted support.

Third, high-technology and innovation-based projects should be expanded. Cooperation between free economic zones, universities, technoparks and research institutions should be strengthened.

Fourth, infrastructure development should be accelerated through public-private partnership mechanisms. Reliable infrastructure is a basic condition for attracting investors and increasing productivity [14].

Fifth, local supplier development should be encouraged. Small and medium-sized enterprises should be integrated into the production chains of zone residents.

Sixth, environmental and social standards should be strengthened. Modern free economic zones should not only attract investment but also support green technologies, energy efficiency and sustainable development [15].

## **4. Conclusion**

The study shows that free economic zones play an important role in the economic development of the Republic of Uzbekistan. They serve as instruments for attracting investment, expanding industrial production, creating employment, developing infrastructure, increasing export potential and supporting regional modernization. The expansion of special economic zones, small industrial zones, technoparks, clusters and youth industrial zones demonstrates the growing importance of territorial industrial policy in Uzbekistan.

At the same time, the effectiveness of free economic zones should not be measured only by their number or the amount of privileges provided to residents. A comprehensive assessment should include investment quality, industrial output, export performance, employment effects, innovation capacity, infrastructure reliability, local supplier linkages, fiscal efficiency and sustainability. Such an approach makes it possible to identify not only the direct outputs of zones but also their broader contribution to structural transformation and regional development.

For Uzbekistan, the future success of free economic zones depends on their ability to become export-oriented, technologically advanced and regionally integrated industrial platforms. To achieve this, policy should focus on transparent governance, high-quality investment, local enterprise participation, human capital development, innovation cooperation and sustainable infrastructure. If these conditions are met, free economic zones can become one of the key drivers of long-term industrial modernization and balanced regional economic growth in Uzbekistan.

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