

## THE ESTABLISHMENT OF SPECIAL ECONOMIC ZONES IN THE REPUBLIC OF UZBEKISTAN AND ITS PURPOSE

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Given the scale of reforms currently underway in Uzbekistan, liberalizing and modernizing the economy—along with improving the functioning of special economic zones (SEZs)—is one of the country's most pressing priorities. Strengthening economic ties between market participants hinges on this objective.

Globally, each country has developed its own unique approach and traditions for attracting foreign investment to its economy. Today, one of the key strategies used by developed countries is the transformation of specific regions, or even entire small nations, into special economic zones as a pathway to economic growth.

Liberalization and modernization of the economy, aimed at achieving the production of goods that meet international standards, require the creation of favorable conditions for foreign investment, especially direct investment. In this regard, special economic zones play a crucial role in implementing these objectives.

Uzbekistan places significant emphasis on the development of SEZs as a critical tool for attracting foreign direct investment. These zones contribute to the establishment of modern enterprises that produce competitive, high value-added products, particularly through the deep processing of local mineral resources. Moreover, SEZs enhance the efficient use of regional production and resource potential, create new employment opportunities, and raise household incomes.

The primary legal framework governing SEZs in Uzbekistan is the Law "On Special Economic Zones," adopted on February 17, 2020, which superseded the earlier Law "On Free Economic Zones" of April 25, 1996.

Under this legislation, the following types of SEZs may be established in the Republic:

- Free economic zones;
- Special scientific and technological zones;
- Tourist recreation zones;
- Free trade zones;
- Special industrial zones.

SEZs may be established on vacant and non-functioning state-owned properties, within administrative territorial units, or on lands unsuitable for agriculture. In exceptional cases, agricultural lands may be allocated for pharmaceutical or agro-industrial SEZs aimed at cultivating crops and medicinal plants.

The President of the Republic of Uzbekistan has the authority to establish SEZs for a period of up to thirty years. Any extension, adjustment of boundaries, or liquidation of these zones is also subject to presidential resolution.

Free economic zones (FEZs), as their name suggests, offer unique economic conditions, including special legal regimes that may cover customs and tax privileges, simplified procedures for entry and stay of individuals, labor regulations, financial and credit activities, and other incentives aimed at fostering investment, entrepreneurship, and socio-economic development. These special regimes apply exclusively to SEZ participants operating within the designated zones.

Among these incentives, customs and tax benefits are particularly critical to both domestic and foreign entrepreneurs. The special customs regime, provided it does not distort competition,

allows for the temporary suspension or reduction of customs duties and the removal or simplification of non-tariff barriers on imports and exports. However, these provisions do not apply to goods in transit through SEZs.

Under the special tax regime, SEZ participants are exempt from customs duties in the following cases:

- Importation of construction materials not produced domestically, used during the construction phase of investment projects (excluding VAT and customs clearance fees);
- Importation of technological equipment not produced in Uzbekistan, as listed in an approved registry (excluding customs clearance fees);
- Importation of raw materials, components, and materials for production and export purposes by SEZ participants (excluding customs clearance fees).

Additionally, participants benefit from a deferred payment of value-added tax (VAT) for up to 120 days on goods imported for use within SEZs, creating further convenience for both local and foreign investors.

Establishing optimal SEZ models in collaboration with foreign investors not only positively influences Uzbekistan's sustainable socio-economic development but also strengthens its integration into the international division of labor. This cooperation reflects the broader global trend of economic internationalization and is a key driver of globalization.

Developing strong, stable production, trade, and economic relations between countries at varying stages of development is essential to the functioning of a modern market economy. As such, the successful implementation of Uzbekistan's SEZ policies requires the development of technically and economically sound programs and in-depth research by scholars and experts.

These factors are critical to attracting foreign investment to Uzbekistan. At the same time, there is a need to actively promote Uzbekistan's SEZ experience internationally, as it offers valuable insights that can be adapted by other countries. Uzbekistan has charted a distinctive path in organizing special economic zones and is effectively leveraging these zones to attract foreign investment.

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