

Unlocking the Potential of SEZs in Central Asia: Uzbekistan's Strategic Approach to SEZ Governance and Sustainable Growth



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Introduction

Building upon insights from the previous policy brief, “Unlocking the Potential of Kazakhstan’s Special Economic Zones: Enhancing Governance, Transparency, and Investment Attraction for Sustainable Growth,” this policy brief shifts focus from identifying shortcomings to exploring the untapped potential of Special Economic Zones (SEZs) in Central Asia, with a particular emphasis on Uzbekistan. It addresses essential considerations regarding legal frameworks and governance, prompting the critical question: **Given the challenges, why should Central Asian countries still pursue SEZs?**

I. Learning from the World: Uzbekistan’s Global Engagement in SEZ Development

First, it is essential to understand how Uzbekistan has addressed the challenges associated with SEZs through actively learning from global experiences. This section connects with the central question by examining how international engagement has been instrumental in shaping Uzbekistan’s SEZ framework, offering a potential blueprint for other Central Asian countries.

Following the collapse of the Soviet Union in 1991, Uzbekistan, under President Islam Karimov, faced the immense challenge of restructuring its economy while maintaining political and social stability. Unlike some other post-Soviet states, Uzbekistan adopted a gradualist approach¹ to economic reforms, prioritizing state control and cautious liberalization over rapid privatization and shock therapy.

In the mid-1990s, as Uzbekistan navigated its economic transition, it became clear that attracting foreign investment, technology transfer, and export diversification were critical for sustained growth. However, the broader economic environment—characterized by bureaucratic hurdles, limited infrastructure, and an underdeveloped private sector—posed significant obstacles.

¹ UNDP (2015).

To address these challenges, the Karimov administration sought lessons from external experiences. In 1995–1996², the Karimov administration conducted an extensive study of successful SEZ models in China, South Korea, and the United Arab Emirates. This involved structured exchanges, including study trips, consultations, and visits by foreign experts. The insights gained were not mere theoretical exercises but formed the basis for tangible policy actions, including the adoption of Uzbekistan’s first Law on Free Economic Zones in 1996.

Over time, and again informed by the lessons learned from implementation, Uzbekistan’s SEZ law underwent a significant revision in 2020³. This update established a more detailed legal framework, clearly defining the roles and responsibilities of various public authorities involved in the creation, operation, and liquidation of SEZs. Building on this foundation, a 2024 amendment⁴ further simplified SEZ administration by granting greater decision-making powers to SEZ directorates—the on-the-ground agencies composed of government-appointed officials, experts in economics, trade, and development responsible for managing these zones—thereby reducing bureaucratic hurdles and streamlining processes to accelerate investment approvals and infrastructure development within SEZs (see Box 1).

Box 1. Legal Framework of SEZs in Uzbekistan (2020)

- **Tax Stability**
 - Companies can retain the tax regime effective at registration, ensuring predictability and reducing fiscal risks.
- **Customs Duty Exemptions**
 - Exemptions apply to:
 - Imported construction materials.
 - Technological equipment.
 - Raw materials for goods produced for the domestic market.
- **Tax Benefits** *(including corporate income tax, property tax, land tax, water usage tax, customs duties)* **Based on Investment Size**
 - **\$300,000 to \$3 million:** Three years of exemptions.
 - **\$3 million to \$5 million:** Five years of exemptions.
 - **\$5 million to \$10 million:** Seven years of exemptions.
 - **Over \$10 million:** Ten years of exemptions, plus a 50% reduction in income and single tax rates for the first five years.
- **Reduction in Operational Costs**
 - Incentives collectively reduce operational expenditures by an estimated 15–20%⁵. Even though this is substantial, a significant portion of these advantages is likely to diminish if Uzbekistan achieves World Trade Organization (WTO) membership and continues on its current trajectory of trade liberalization. Tariff rates, once around 15%, have already fallen to 5–10%⁶, and further reductions could erode the competitive edge provided by these incentives. Similarly, progress on non-tariff barriers, such as Uzbekistan’s accession to the Common Transit Convention in 2020⁷, reflects the broader trend toward integration into global trade systems, with the country aiming to join the WTO by the 14th Ministerial Conference in Cameroon in 2026⁸.

² UNDP (2015).

³ Lex.uz (2020).

⁴ Kun.uz (2024a).

⁵ Utkir ugli (2022).

⁶ World Trade Organization (2021).

⁷ World Trade Organization (2021).

⁸ World Trade Organization (2024).

- **Workforce Regulations**
 - At least 90% of the workforce in SEZs must be Uzbek citizens.
- **Production Requirements**
 - Companies must:
 - Introduce new or underrepresented goods into the domestic market.
 - Achieve at least 30% value addition in their production processes.
 - The process being:
 1. The company or investor prepares and submits an investment proposal to the SEZ Directorate, including justification for introducing a new good or achieving +30% added value.
 2. The SEZ Directorate reviews the investment proposal and, following the 2024 amendment, independently decides whether to approve it—a responsibility that before the 2024 amendment required submission to external expert review.
 3. Monitoring is conducted by requesting periodic reports from the company or organizing on-site inspections to ensure compliance and progress.

This proactive approach to learning did not stop at policy formulation; it extended into practical implementation through strategic partnerships. The learning process was further complemented by ongoing collaboration with international partners⁹ during the establishment of key SEZs. For instance, the creation of the **Navoi Free Industrial Economic Zone** in 2008 exemplifies how Uzbekistan incorporated global expertise. By involving South Korea, particularly through Korean Air¹⁰, Uzbekistan ensured that Navoi benefited from advanced knowledge in logistics and high-technology manufacturing. In 2009, Korean Air Cargo took over operations at Navoi International Airport, launching an ambitious 10-year plan to transform it into a major logistics hub. A key milestone in this effort was the construction of Central Asia's largest air cargo terminal, capable of handling up to 100,000 tons of cargo annually. Beyond building infrastructure, Korean Air brought its technical expertise, operational skills, and sales support to enhance the airport's logistics capabilities and solidify its role as a key player in the region. The SEZ's strategic location—at the intersection of a major international airport, the E40 highway, and critical railway networks—also underscores how global best practices were considered to support the SEZ success.

Similarly, partnerships with China played a pivotal role. **The Angren SEZ**, established in 2012 with a focus on manufacturing, and the **Chirchiq SEZ**, launched in 2013 for heavy industries and mining, were developed in collaboration with Chinese institutions such as the Ministry of Commerce and the China Development Bank. These collaborations have enriched Uzbekistan's SEZs with international expertise. For example, in Angren¹¹, the China Railway Tunnel Group, in partnership with Uzbek Railways, constructed the Angren–Pop railway line, which includes the 19.2 km Kamchiq Tunnel—the longest in Central Asia. This improved connectivity between the Fergana Valley of the SEZ and the rest of Uzbekistan.

⁹ Sattarov (2018).

¹⁰ Khodjaev and Oh (2010).

¹¹ Huang (2016).

It is evident that Uzbekistan's strategy of learning from the world has been foundational in overcoming challenges associated with SEZ development. By integrating global best practices, Uzbekistan has laid a solid groundwork for effective SEZ implementation, directly addressing the central question about the viability of pursuing SEZs in Central Asia despite inherent challenges.

II. Tangible Economic Impact of SEZs in Uzbekistan

Having established how Uzbekistan has learned from global examples to develop its SEZs, it is crucial to assess the tangible outcomes of these efforts. In fact, as a result of these strategic international collaborations and carefully crafted policies, Uzbekistan's SEZs have generated significant economic benefits. Uzbekistan's SEZs are not just theoretically well-crafted, their impact is evidenced by measurable economic outcomes¹²:

- *Investment Attraction*: Since 2018, over 500 investment projects have been executed, attracting **USD 3 billion** in cumulative investments, with foreign investors contributing one-third of the total. By 2021, SEZs accounted for approximately **80%** of the nation's foreign direct investment (FDI) inflows.
- *Job Creation*: SEZs have created between **40,000 - 70,000 jobs**, significantly strengthening the labor market.
- *Trade Enhancement*: Estimates of exports facilitated by SEZs range from **USD 400 million to USD 1.2 billion** annually, while import substitution activities have reduced imports by an estimated USD 350 million in 2023.
- *GDP Contribution*: SEZ-driven activities contributed approximately **12%** to national GDP growth in 2023, up from **8%** in 2018.

These impressive figures illustrate the substantial role that SEZs play in Uzbekistan's economic development, confirming the effectiveness of the country's strategic approach.

Furthermore, the impact of SEZs extends through multiplier effects that stimulate other sectors of the economy. One recent study¹³ found that a **\$1** increase in output in SEZ chemical and oil industries is estimated to generate additional production valued at **\$1.62** in building materials, **\$0.91** in greenhouse agriculture, and **\$0.55** in pharmaceuticals. These multiplier effects underscore the far-reaching influence of SEZs on Uzbekistan's overall economic growth and diversification.

These tangible economic impacts of Uzbekistan's SEZs provide compelling evidence that, despite challenges, pursuing SEZs can yield significant benefits for Central Asian countries. This analysis not only validates Uzbekistan's strategic approach but also reinforces the argument that SEZs are a viable tool for sustainable growth.

¹² Imombaevich and Utkir ugli (2022); Kamchibekov (2024).

¹³ Sabirov and Akbarova (2023).

III. Addressing Labor Market Challenges through SEZs

Building upon the demonstrated economic impacts, it is important to explore how SEZs can further contribute to solving social challenges, particularly those related to the labor market. This section links the economic successes outlined previously with the socio-economic benefits, further answering the central question by illustrating another aspect of SEZ benefits.

In addition to economic growth, SEZs offer solutions to pressing social challenges, particularly in the labor market. As SEZs gain further political and economic traction under President Shavkat Mirziyoyev, who succeeded Islam Karimov in 2016, their potential should be fully leveraged to address Uzbekistan's demographic and labor market challenges.

With a current population of approximately **36 million**, projected to reach **40 million** by the late 2020s, Uzbekistan has a predominantly young demographic¹⁴: over **60%** of the population is **under the age of 30**, and more than **10% is below the age of five**. While this demographic structure offers immense opportunities, it also presents a pressing need for large-scale job creation. SEZs are uniquely positioned to provide the framework necessary to meet these demands.

However, the nation's potential, based on its youth, is currently underutilized due to limited employment opportunities, leading to significant emigration. Approximately 80% of Uzbek migrant workers head to Russia¹⁵, often taking on low-skill jobs that were historically better paid there than in Uzbekistan. While remittances have become a cornerstone of the country's economic strategy—contributing USD 12.5 billion by October 2024¹⁶, a 35% increase year-over-year and accounting for approximately 7.3% of GDP—an over-reliance on external labor markets introduces vulnerabilities.

In a country where approximately 600,000 new entrants join the labor market annually¹⁷, juxtaposed against the creation of only 300,000 formal new jobs, this persistent gap highlights the need for comprehensive strategies to expand employment opportunities within Uzbekistan's borders. While nearly half of the workforce was engaged in the informal sector¹⁸ in 2023, consequently to maximize the potential of the labor market and improve economic outcomes, efforts should focus on transitioning workers to the formal sector. SEZs present a promising avenue to achieve this goal, fostering formal job creation and driving sustainable economic growth.

Uzbek legislation mandates that at least 90% of SEZ employees must be Uzbek citizens (see Box 1 above), ensuring that these zones prioritize the integration of the national workforce. SEZs, therefore, offer distinct advantages for diverse labor market segments. For university graduates, they provide high-value employment opportunities in industries such as technology, logistics, and advanced manufacturing, aligning with the aspirations and qualifications of young professionals. For non-graduates, SEZs create industrial and manufacturing jobs that offer stable incomes and skill-building opportunities, instead of the acquisition of a university degree that will not lead to a job¹⁹.

¹⁴ Statistics Agency under the President of the Republic of Uzbekistan (2024a).

¹⁵ Kun.uz (2024a).

¹⁶ Kun.uz (2024b).

¹⁷ Legislative Chamber of the Republic of Uzbekistan (2024).

¹⁸ ILO (2023).

¹⁹ Saida (2024).

By reducing the economic pressures that drive emigration, SEZs not only retain talent but also enhance the economic prospects of Uzbekistan's youth. Thus, SEZs serve as a critical tool in harnessing the country's demographic dividend, fostering inclusive growth, and mitigating the challenges posed by a burgeoning young population.

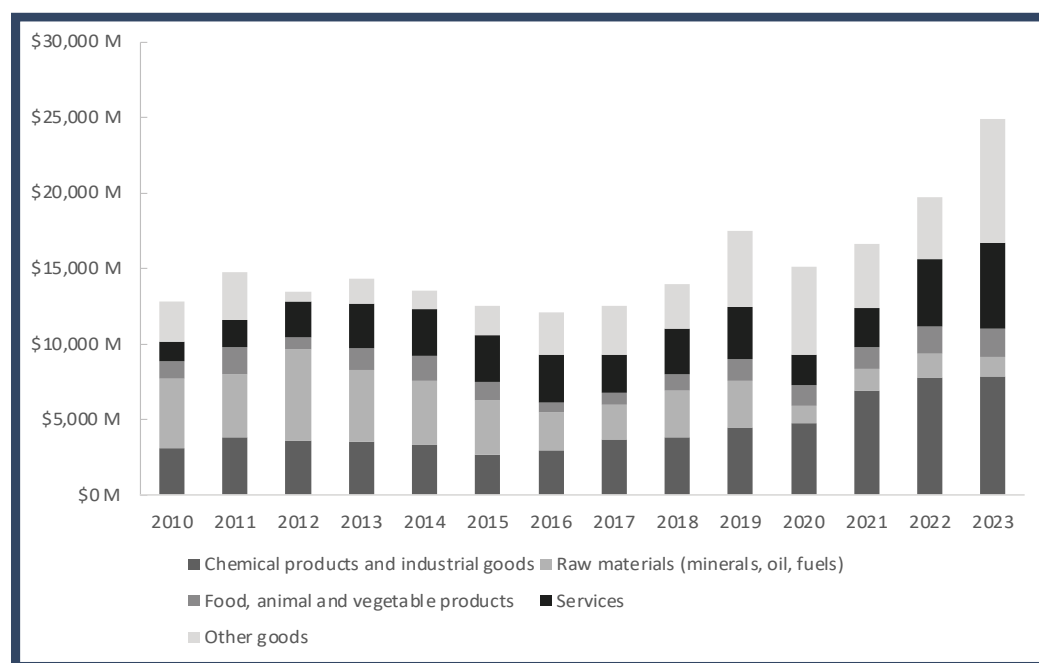
It is clear that SEZs can play a vital role not only in economic development but also in addressing significant social challenges. By providing employment opportunities and retaining its youthful workforce, SEZs help stabilize the labor market and contribute to sustainable development.

IV. Enhancing Regional Integration and Economic Influence

Continuing on from the discussion on labor market benefits, it is imperative to consider how SEZs contribute to Uzbekistan's position in the regional economy. This section connects the internal benefits of SEZs to external opportunities, showcasing how SEZs can elevate a country's regional and global economic standing.

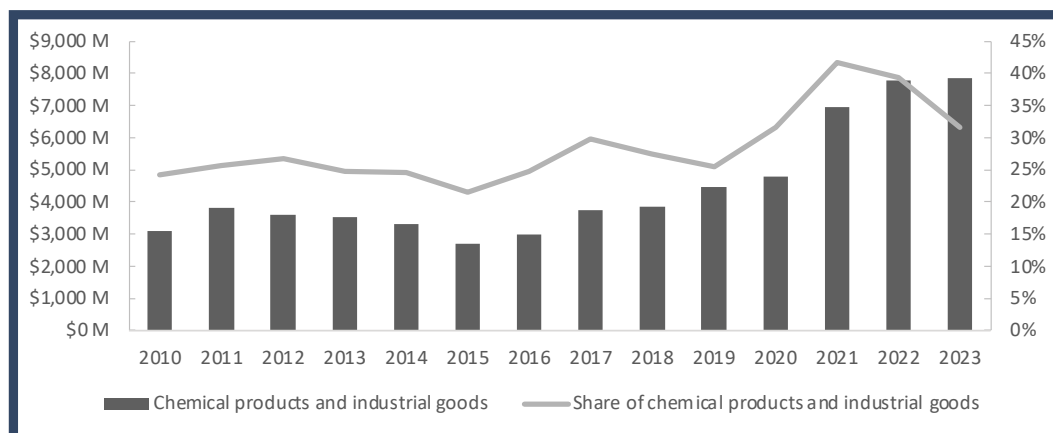
SEZs play a crucial role in enhancing Uzbekistan's regional integration and economic influence. Beyond its borders, Uzbekistan occupies a pivotal position in the broader regional economy, presenting unique opportunities to enhance its economic power through SEZs. Historically dominated by the export of raw materials, Uzbekistan has recently made notable strides toward diversifying its economic base, as evidenced by the rising share of manufactured goods in its export portfolio (see Figure 1.1 and Figure 1.2).

Figure 1.1²⁰: Uzbekistan's Exports Structure (2010-2023)



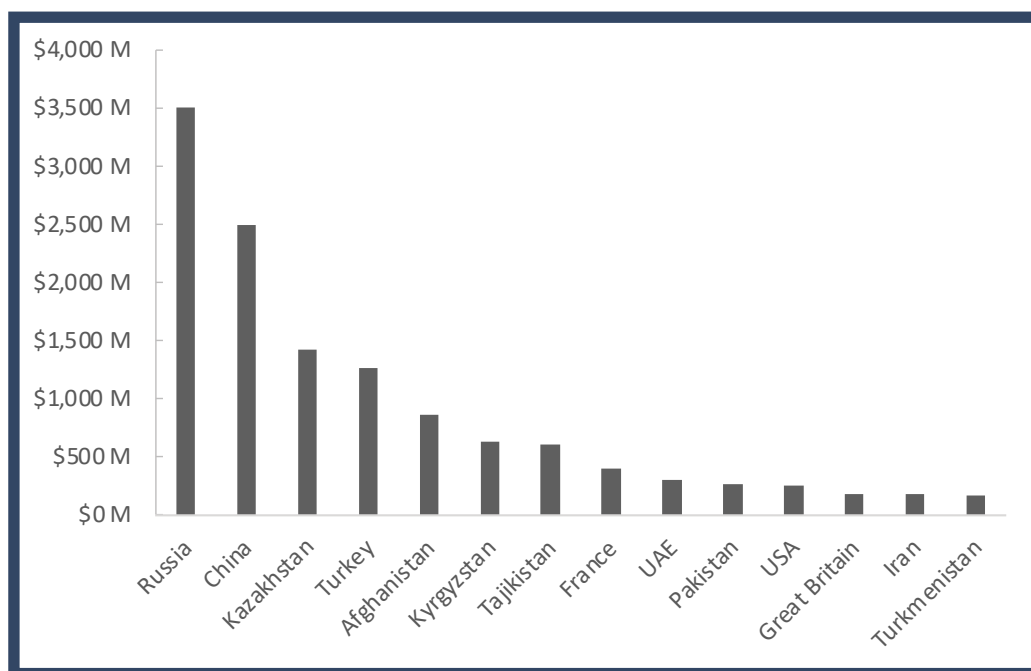
²⁰ Statistics Agency under the President of the Republic of Uzbekistan (2024c).

Figure 1.2²¹: Uzbekistan's Exports of Chemical and Industrial Products (2010-2023)



These manufactured goods are predominantly aimed at Central Asian markets and large neighboring economies, including Russia, China and Turkey (see Figure 2.1 and Figure 2.2).

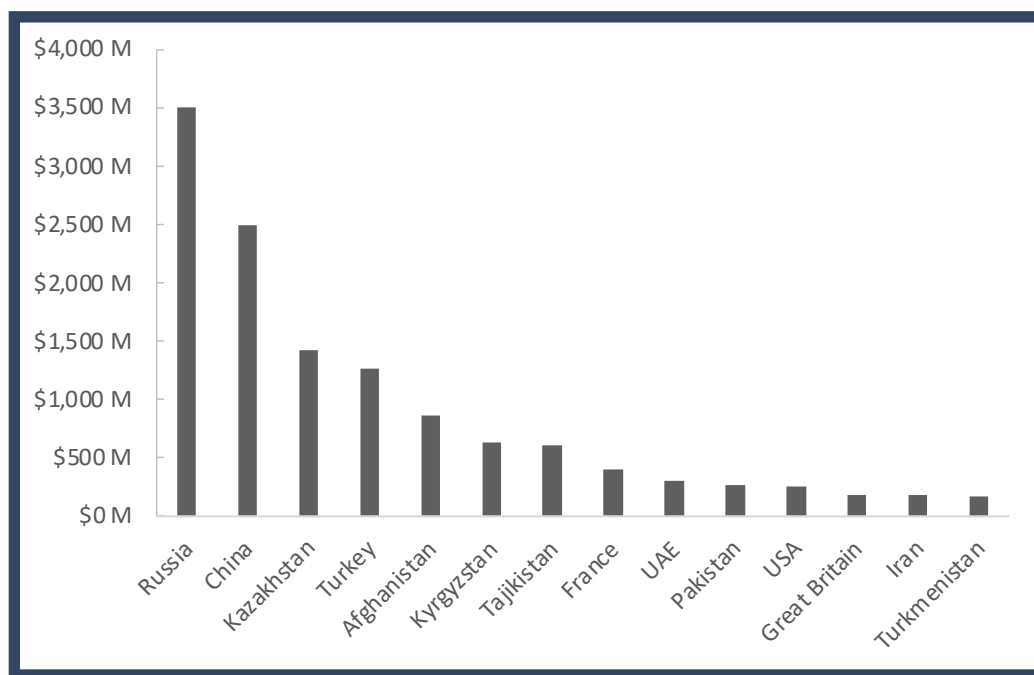
Figure 2.1²²: Uzbekistan's Top 15 Export Destinations (2023)



²¹ Statistics Agency under the President of the Republic of Uzbekistan (2024b).

²² Statistics Agency under the President of the Republic of Uzbekistan (2024c).

Figure 2.2²³: Uzbekistan's Top 15 Export Destinations (2023)



This regional trade pattern underscores an imperative for Uzbekistan to deepen economic integration within the region and beyond. Strengthening regional ties not only expands market access but also solidifies Uzbekistan's position as an economic leader in Central Asia.

In this context, SEZs offer a structured mechanism for Uzbekistan to drive FDI, stimulate innovation, and catalyze economic growth to enhance its influence in the regional economic bloc. By capitalizing on its strategic location and improving its SEZ framework, Uzbekistan can distinguish itself from its neighbors and attract increased foreign investment and even more FDI.

For example, a \$1 billion memorandum of understanding (MoU)²⁴ for investment in private sector projects and infrastructure development signed with the United States in early 2021, at the end of the previous Trump administration, remains an un-utilized resource, as it was not carried forward and used under the Biden administration. This policy shift left the MoU inactive over the past few years. With Donald Trump now returning to office in 2025, there is a possibility that this agreement could regain traction. If re-prioritized, the DFC commitment could become a key tool for advancing US-Uzbekistan relations, strengthening Uzbekistan's infrastructure, and enhancing its ability to attract FDI.

Additionally, recent investments, such as the partnership between China's electric vehicle manufacturer BYD and UZ Automotor²⁵ to produce electric vehicles, underscore Uzbekistan's growing appeal as a global investment destination. If the state plays a role in channeling these investments, its primary focus should be on maintaining the country's attractiveness through stability and a conducive environment. While full liberalization might not yet be

²³ Statistics Agency under the President of the Republic of Uzbekistan (2024c).

²⁴ U.S. International Development Finance Corporation (2021).

²⁵ Kang (2024).

feasible or aligned with the country's current readiness, maintaining steady progress and focus on targeted initiatives like SEZs can enhance competitiveness without disrupting the flow of FDI.

Furthermore, the strategic use of border free trade zones could be instrumental in attracting investment. Attracting more investment into transport infrastructure and offering opportunities to companies from supporting countries—such as providing Chinese companies with spots in trade SEZs in exchange for investment in road and rail transport—would enable Uzbekistan to avoid becoming merely a transit “corridor”²⁶. Instead, it could position itself as a central hub in regional trade networks. By leveraging SEZs strategically, Uzbekistan can amplify its economic influence, foster regional cooperation, and secure a more prominent role in the international arena.

It is evident that SEZs are not only tools for domestic economic development but also strategic instruments for enhancing regional integration and expanding economic influence. This reinforces the argument that, despite challenges, Central Asian countries have compelling reasons to pursue SEZs. With these multifaceted benefits in mind, we move to the final conclusion of this policy brief.

Conclusion

Returning to the central question—Given the challenges, why should Central Asian countries still pursue SEZs?—the answer lies in the multifaceted advantages demonstrated by Uzbekistan's experience. Uzbekistan's strategic, well-executed approach to SEZs illustrates how inherent challenges can be overcome to maximize benefits. By learning from global best practices, achieving measurable economic impacts, addressing critical labor market issues, and enhancing regional integration, SEZs have proven to be valuable to Uzbekistan's growth strategy.

As Central Asian countries contemplate their economic futures, Uzbekistan's model offers valuable lessons on how SEZs can be effectively leveraged for sustainable development and increased economic influence. Continuing to refine and expand upon this approach will not only benefit Uzbekistan but could also inspire and guide its regional neighbors toward shared prosperity. Despite inherent challenges, SEZs offer substantial economic, social, and strategic benefits that can drive sustainable growth and regional cooperation. Therefore, Central Asian countries should consider embracing and adapting SEZ models, drawing from examples like Uzbekistan, to unlock their own potential for growth.

²⁶ Burna-Asefi (2024); Curtis & Klaus (2024).

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