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Factors for Attracting Investments to Special Economic Zones

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Abstract: This article analyzes the key factors influencing investment attraction in special economic zones (SEZs), with a focus on developing countries, particularly the case of Uzbekistan. It examines the challenges faced by SEZs and proposes solutions for overcoming them. The study highlights the role of SEZs in promoting economic growth, increasing export potential, creating new jobs, and advancing technological development. Based on the findings, practical recommendations have been developed to ensure sustainable economic growth, attract investments, and strengthen international integration through SEZs.

Keywords: Special Economic Zones, Investments, Developing Countries, Tax Incentives, Infrastructure, Business Environment, Investors, Economic Policy, Uzbekistan Experience

1. Introduction

Special Economic Zones (SEZs) play a crucial role in the economic growth of developing countries and their integration into global markets. These zones are primarily designed to modernize the economy, create new jobs, promote technological advancement, and boost exports. Companies operating within SEZs are typically incentivized through tax exemptions, customs reliefs, and various other government support programs [1].

Drawing from the experience of developing countries, several key factors influence the attraction of investment into SEZs. First and foremost, the political and economic stability of the country, along with the presence of an open and transparent legal system, creates a favorable and attractive environment for investors [2]. The second factor involves the development of infrastructure, including the improvement of transport and communication networks, as well as a reliable supply of energy and other resources. The third factor consists of specific tax benefits and additional support mechanisms provided by the government.

SEZs contribute significantly to economic diversification, technological progress, and the expansion of international trade. For instance, countries such as China, South Korea, and India have successfully developed SEZs and have effectively utilized them to stimulate economic growth [3]. At the same time, in developing countries, the success of attracting investments to SEZs is closely tied to economic, political, and social factors. These zones not only generate economic benefits but can also become major drivers of social stability and innovation-led development. SEZs are strategically important for the economies of developing nations and often act as essential tools for integrating with global markets [4]. These zones aim to create economic incentives for enterprises operating within

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designated territories, attract foreign and domestic investment, and enhance export capacity. In turn, SEZs contribute to diversifying national economic structures, generating employment opportunities, and adopting cutting-edge technologies [5].

There are numerous successfully implemented SEZ projects across various developing countries. These nations have leveraged SEZs to diversify their economies, establish new industrial sectors, and boost their presence in international trade. Consequently, the issue of attracting investments into special economic zones and ensuring economic growth through these mechanisms remains of critical importance for developing countries. This article analyzes the main factors for attracting investment into SEZs and explores the experiences of developing nations in this context [6].

Literature Review

In order to fully understand the concepts and essence of special and free economic zones, it is essential to examine the views, experiences, and reflections of both foreign and local scholars who have conducted extensive research and studies in this field. Among foreign researchers, notable contributions have been made by Thomas Farole, Douglas Zhihua Zeng, and American scholars M. Frazee and R [7]. Renner, as well as Russian researcher I. P. Fominsky. From Uzbekistan, scholars such as A. V. Vakhobov, D. Yu. Khujamkulov, S. S. Mirzalieva, M. A. Raimjonova, and A. A. Ostonakulov have explored various scientific and methodological aspects related to the activities of free economic zones in their research works. Their scientific perspectives have been analyzed and reviewed in the preparation of this study.

2. Materials and Methods

This article employs comparative analysis as well as inductive and deductive evaluation methods. Analytical and comparative approaches were applied throughout the research. The experiences of different countries were examined based on reports by international organizations, scientific articles, and official government documents. In addition, statistical data was utilized to assess the effectiveness and development trends of SEZs. The study also integrates both qualitative and quantitative research methods to provide a comprehensive analysis.

3. Results and Discussion

Special Economic Zones (SEZs) occupy an important place in the economies of developing countries. In recent years, studies and reports conducted by international organizations have helped to deepen the understanding of the factors influencing investment attraction into SEZs [8].

According to the 2024 "World Investment Report" published by UNCTAD (United Nations Conference on Trade and Development), global foreign direct investment (FDI) decreased by 12% in 2022, amounting to USD 1.3 trillion.

As shown in Figure 1, international investment flows have experienced significant fluctuations, primarily due to geopolitical instability and rising global debt levels. According to the chart, there has been a year-on-year increase in the volume of investments entering through portfolio investments and credit lines. The recent decline in foreign direct investment (FDI) is associated with global crises such as political tensions, rising prices of food and energy, and increasing public debt.

Although investment in developing countries increased by 4%, this growth was concentrated primarily in a few large economies. For instance, investments in renewable energy sources grew by 8% in 2022. However, this increase is significantly slower compared to the 50% growth recorded in developing countries in 2021.

In addition, the World Bank discontinued the publication of the "Doing Business" report in 2021 due to detected data irregularities and errors in previous rankings. An internal audit conducted in 2020 confirmed data manipulation in the 2018 and 2020

reports. As a result, the World Bank announced the development of a new approach to assess business and investment environments going forward .

According to the latest analysis by the World Economic Zones Organization, as of 2020, there are more than 5,400 special economic zones (SEZs) operating worldwide. These zones are located in over 130 countries, with the majority situated in developing nations. Successful SEZs typically possess factors such as robust infrastructure, tax incentives, export promotion policies, and political stability. For example, the Jebel Ali Free Zone (JAFZA), located in the United Arab Emirates, has operated successfully for many years and plays a crucial role in the development of international trade .

In Uzbekistan, the Presidential Decree No. PF-41, dated March 4, 2025, titled “On Additional Measures to Improve the Efficiency of Special Economic and Industrial Zones”, was adopted.

According to the decree, the main target indicators for the development of special economic and industrial zones in 2025 are as follows:

- To attract USD 2.3 billion in investments into special economic zones, to increase the export volume to USD 1 billion, to ensure the production volume of USD 4.3 billion, and to create 12,000 new permanent jobs;
- To attract USD 800 million in investments into industrial zones, to increase the export volume to USD 512.2 million, to ensure the production volume of USD 1.8 billion, and to create 17,000 new permanent jobs.

Furthermore, it was established that all newly created specialized zones must be organized exclusively in the form of either special economic zones or industrial zones.

Figure 1. International Investment Flows⁴

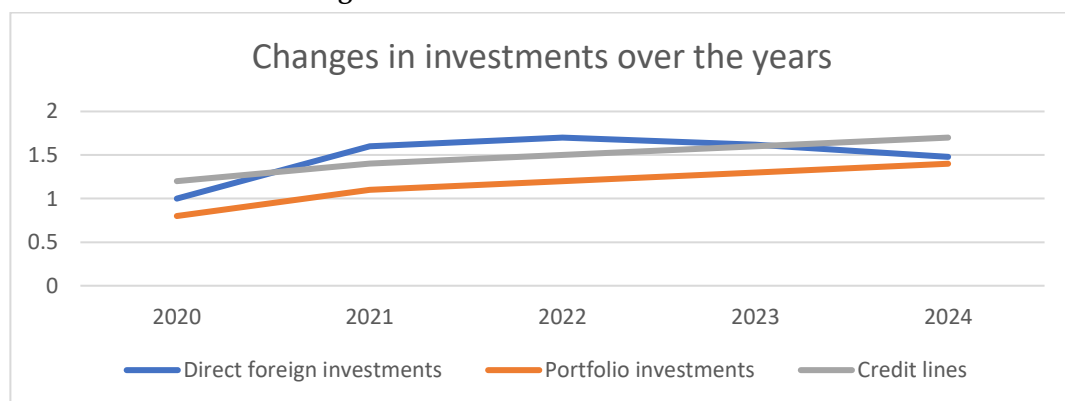
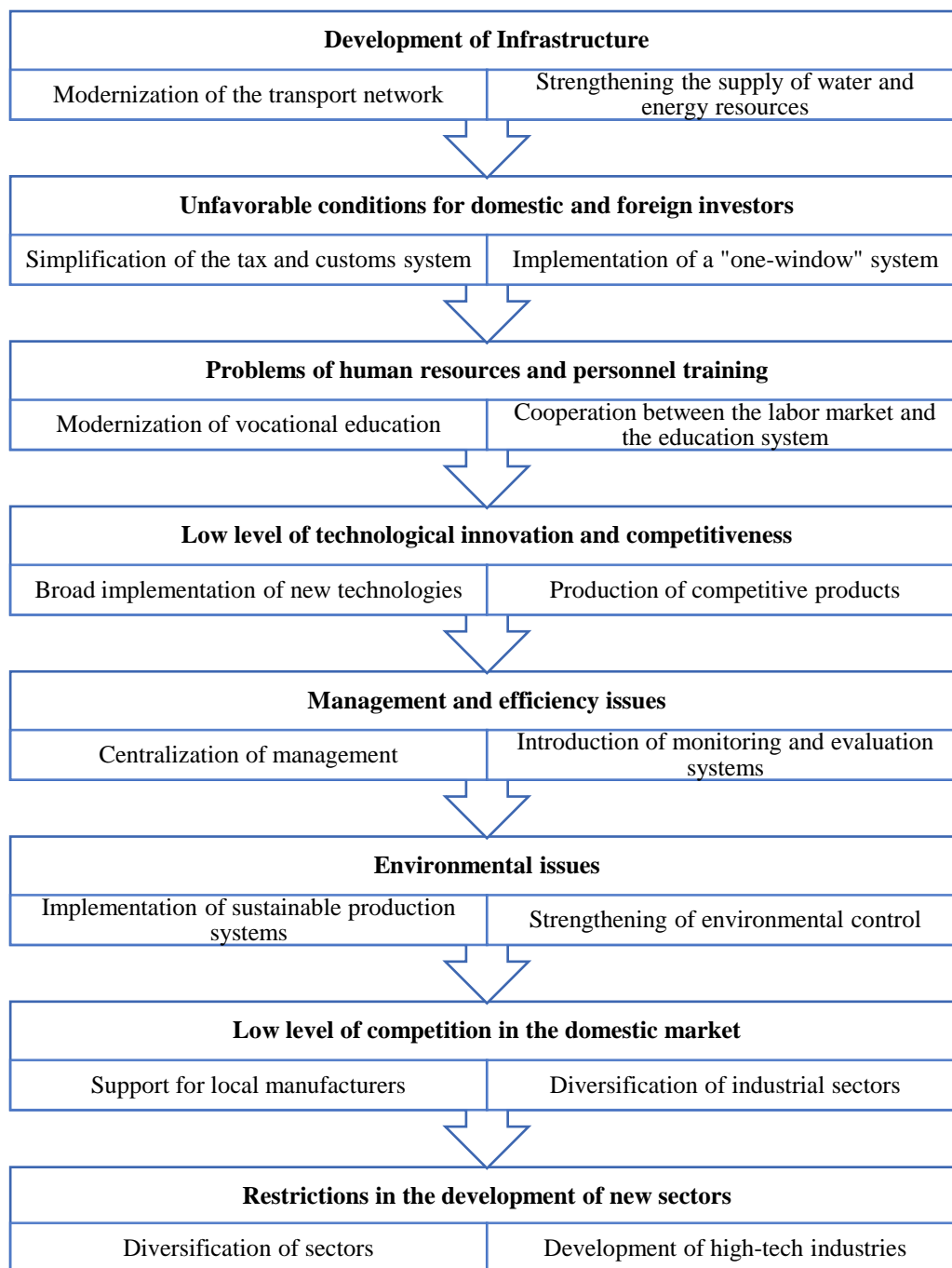


Table 1 presents a comparative analysis of SEZ performance metrics across several developing countries., the key factors that influence investment attraction into SEZs include infrastructure quality, legal certainty, tax incentives, and investor support mechanisms. Special economic zones may also be established in the form of fenced-off special export zones that are exclusively specialized in export-oriented projects. It is also emphasized that the time limits on the operation of SEZs have been abolished.

In order to eliminate the shortcomings in the development of special economic zones (SEZs) in Uzbekistan, the following specific solutions can be proposed:

Table 1. Factors Influencing Investment Attraction to Special Economic Zones (SEZs)



1. Infrastructure Development:
 - **Modernization of Transport Networks:** It is essential to build new transport networks and upgrade existing ones for Special Economic Zones (SEZs). In particular, the development of railways, highways, and logistics centers is crucial. To enhance logistics opportunities for exports from SEZs, effective transport management mechanisms should be implemented [9].
 - **Strengthening Water and Energy Supply:** The widespread use of renewable energy sources (solar, wind) in SEZs will help stabilize the electricity supply. To improve water supply, it is necessary to introduce efficient systems for utilizing local water resources.
2. Unfavorable Conditions for External and Internal Investors:
 - **Simplification of Tax and Customs Systems:** Simplifying tax incentives and customs regulations will help increase investment inflows. In particular, tax

- incentives should be expanded for high-tech and export-oriented manufacturing companies, and customs procedures should be accelerated [10].
- Introduction of a "One-Stop-Shop" System: Creating the possibility to carry out all the official procedures for investment projects in one place will reduce bureaucratic barriers and increase efficiency.
3. Human Resources and Workforce Training Issues:
 - Modernization of Vocational Education: Vocational education needs to be updated to train specialists working in SEZs. New training programs that meet industry needs should be introduced in technical and vocational colleges in Uzbekistan, with an emphasis on involving students in practical work.
 - Collaboration Between the Labor Market and Education System: It is necessary to align the education system with the needs of the manufacturing sector, establishing strong cooperation between companies and educational institutions to train the required specialists [11], [12].
 4. Technological Innovations and Low Competitiveness:
 - Widespread Adoption of Technologies: The government should implement a system of grants and subsidies for the widespread application of innovative technologies in SEZs. Startups and technological incubators aimed at introducing new technologies should be established, and support systems for local innovative companies should be strengthened.
 - Production of Competitive Products: To make products manufactured in Uzbekistan high-quality and competitive, it is necessary to expand international certification systems and implement high production standards for export-oriented products [13].
 5. Management and Efficiency Issues:
 - Centralization of Management: To ensure effective coordination, a "one-window" system should be established for the management of SEZs. At the same time, clear management tasks and responsibilities should be defined for each SEZ.
 - Implementation of Monitoring and Evaluation Systems: To continuously monitor the performance of SEZs, evaluate operational processes, and improve them, new technologies such as data analytics and digital monitoring systems should be introduced [14].
 6. Environmental Issues:
 - Introduction of Sustainable Production Systems: To ensure environmental sustainability, it is essential to introduce "green" technologies in SEZs. Technologies that save energy and reduce the negative impact on the environment must be implemented.
 - Strengthening Environmental Control: It is necessary to establish robust control mechanisms to monitor compliance with environmental standards by industrial enterprises in SEZs. Additionally, systems for waste recycling should be developed, and programs aimed at reducing waste should be launched [15].
 7. Low Development of Competition in the Domestic Market:
 - Supporting Local Manufacturers: It is necessary to create support programs for local manufacturers in terms of technological modernization, marketing, and export opportunities. In particular, advertising and sales systems should be developed to direct products manufactured in SEZs to the domestic market.
 - Diversification of Industrial Sectors: The industrial sectors in SEZs should be diversified, such as developing the automotive, electronics, pharmaceuticals, and other high-tech industries. This will strengthen the integration of these zones with global markets .
 8. Restrictions on the Development of New Industries:
 - Diversification of Sectors: It is important to limit specialization in only one industry within SEZs and to support initiatives for the development of new,

promising sectors. This will ensure sustainable development across various sectors of the economy.

- Development of High-Tech Industries: SEZs should be developed as zones specializing in high-tech industries and scientific fields, including artificial intelligence, robotics, biotechnology, and other advanced sectors.

4. Conclusion

The solutions outlined above are crucial for enhancing the effectiveness of Special Economic Zones (SEZs) in Uzbekistan and strengthening their integration with global markets. Strengthening cooperation between the public and private sectors, as well as improving infrastructure, environmental safety, and workforce training systems, can significantly enhance the competitiveness of SEZs.

In attracting investments to SEZs, several factors, including political and economic stability, infrastructure development, government support, and data from international organizations, play a key role. Considering these factors, countries should develop and implement a tailored strategy for their SEZs, aligning them with global best practices to foster sustainable growth and competitiveness.

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