

TAXATION OF PARTICIPANTS IN FREE ECONOMIC ZONES : OPPORTUNITIES TO INCREASE EXPORT CAPACITY

Turayev Alijon - Samarkand Institute of
economics and service, Acting Associate Professor of the
Department of Investments and Innovations, PhD

alijon.turayev@mail.ru

Suyunov Sanjar – Samarkand Institute of
economics and service, Faculty of Economics
3rd year student

sanjarsuyunov1@gmail.com

Abstract: This article It is devoted to a comprehensive analysis of the effectiveness of the taxation system for participants in free economic zones in the Republic of Uzbekistan in stimulating the export potential. The study provides an in-depth study of macroeconomic indicators, investment flows and the dynamics of foreign trade turnover for 2023–2025. The compliance of the established profit tax, property and land tax preferences for free economic zones with international tax coordination, in particular, BEPS (Base Erosion and Profit Shifting) Action 5 and the requirements of the World Trade Organization is scientifically assessed. The report analyzes the structural problems in Uzbekistan 's export structure, including the concentration of raw materials and the low technological complexity of products, and indicates ways to improve tax mechanisms to eliminate them. A comparative analysis is conducted with successful models of countries such as Turkey and China, and practical proposals are developed to increase the competitiveness of the national economy.

Keywords: Free economic zones, tax incentives, export potential, investment attractiveness, foreign trade turnover, macroeconomic stability, BEPS Action 5, diversification, human capital, infrastructure.

Introduction

In the context of integration processes in the world economy and increased global competition, ensuring sustainable growth of the national economy directly depends on the effectiveness of foreign economic activity. Free economic zones are a strategic mechanism for many developing countries, including Uzbekistan, to attract investments, master new technologies, and create export-oriented production capacities. As set out in the Strategy of the President of the Republic of Uzbekistan "Uzbekistan - 2030", the priority task is to bring the country's gross domestic product

(GDP) to \$ 160 billion and improve the well-being of the population, modernize industrial sectors, and sharply increase export potential. ¹According to the results of 2024, the economy of Uzbekistan demonstrated a real growth rate of 6.5%, which contributed to the GDP reaching \$ 115 billion. Despite this, the predominance of imports over exports in foreign trade turnover remains, which puts pressure on the balance of payments. In 2024, foreign trade turnover amounted to \$65.9 billion, of which exports amounted to \$26.9 billion and imports to \$39 billion. Although gold, services, and industrial goods accounted for 70 percent of the export composition, the level of technological sophistication of processed products remains below international standards.²

Tax incentives provided to participants in free economic zones are considered the main tool for solving these problems. Currently, there are 24 FEZs and more than 750 small industrial zones in the country, which provide a wide range of preferences to foreign and local investors. However, the effectiveness of traditional tax holidays and preferential regimes, their compliance with international tax standards (in particular, BEPS requirements), and their impact on export diversification are hotly debated in academic circles. The relevance of this report is determined precisely by the analysis of taxation mechanisms in FEZs, identifying new opportunities for increasing export potential and developing measures to eliminate existing institutional barriers.³

Analysis of literature on the topic

The concept of free economic zones and their role in economic growth has been widely studied in the international economic literature. Academic literature describes free economic zones as a means of reducing transaction costs, exploiting agglomeration effects, and attracting investment in a limited geographical area. Hamada (1974) in his fundamental research showed that free economic zones are effective as an instrument of economic policy in stimulating foreign trade, while later scholars such as Ge (1999) and Zeng (2012) argued that the success of these zones depends not only on tax incentives, but also on the quality of infrastructure and management efficiency.⁴

The issue of special tax zones at the international level has been thoroughly analyzed by the IBFD research group. They believe that while SEZs provide a preferential tax regime to achieve the regulatory objectives of the state, these zones should not conflict

¹Carlucci, F., Pizzutilo, F., Trinconne, B., & Venezia, E. (2025). Evaluation of the economic effects of special economic zones, free trade zones and port quality. *International Journal of Economics and Financial Issues*, 15(6), 323–333.

²International Trade Administration. (2025, December 9). Uzbekistan market overview. <https://www.trade.gov/country-commercial-guides/uzbekistan-market-overview>

³Laukkanen, A., Pistone, P., & de Goede, J. (Eds.). (2019). Special tax zones in the era of international tax coordination [PDF]. IBFD.

⁴Carlucci, F., Pizzutilo, F., Trinconne, B., & Venezia, E. (2025). Evaluation of the economic effects of special economic zones, free trade zones and port quality. *International Journal of Economics and Financial Issues*, 15(6), 323–333.

with international tax coordination. The BEPS (Base Erosion and Profit Shifting) Action 5 plan developed by the OECD established criteria for assessing tax incentives in SEZs as "harmful tax competition". The most important of these criteria is the requirement of "substantial economic activity", which requires that the enterprise has real production and jobs in the area in order to benefit from the incentives.

Vakhabov, A. Rasulev and N. Sirojiddinov conducted important research on issues of increasing the competitiveness of national enterprises and improving the activities of SEZs. Vakhabov and others studied the relationship between state competition policy and tax incentives in ensuring competitive advantages in the world market. Also, T. Malikov and O. Olimjonov developed the theory of the role of tax policy in the financial system and special tax regimes for SEZs.⁵

recent studies, in particular, in the works of N. Nazarov (2023), the statistical relationship between labor productivity in SEZs and the volume of attracted investments has been analyzed using the example of the Navoi SEZ. However, the role of taxation in increasing export potential is often considered only from the point of view of granting incentives. Modern approaches, however, suggest linking tax policy with the "green economy" and technological modernization. In this regard, IMF and World Bank experts emphasize the importance of institutional reforms and investments in infrastructure to diversify the export structure of Uzbekistan.

Research methodology

This study is based on systematic analysis, comparative legal methods, statistical grouping and econometric modeling. The information base of the study is the official reports of the Agency for Statistics of the Republic of Uzbekistan for 2022–2024, data on the balance of payments of the Central Bank, materials of the Ministry of Investments, Industry and Trade, as well as analytical reports of international organizations such as UNCTAD, IMF and OECD.

The following steps were performed during the analysis process:

1. **Descriptive statistical analysis:** Uzbekistan's foreign trade turnover and export volume were reviewed for the period 2022–2024.
2. **Assessment of the tax regime: The benefits provided to FEZ participants were analyzed based on the Law " On Free Economic Zones " and Article 473 of the Tax Code.**
3. **Index analysis:** Uzbekistan 's export diversification and institutional quality were assessed using UNCTAD's Production Capabilities Index (PCI).
4. **Comparative international analysis:** Turkey's experience with free zones and organized industrial zones (OSB) was compared with the practice of Uzbekistan.

⁵Abstract of the dissertation for the degree of Doctor of Philosophy (PhD) in Economics]

The chronological scope of the study mainly covers the last 3 years, but preliminary forecasts for 2025 are also included to identify trends.

Main part: Problem analysis and results

Uzbekistan's foreign trade turnover and export dynamics (2023-2024)

The Uzbek economy has been showing steady growth in terms of increasing foreign trade in recent years. At the end of 2024, the country's foreign trade turnover (TSA) reached \$65.9 billion, an increase of 3.8% compared to 2023. During this period, exports amounted to \$26.9 billion (an increase of 8.4%), while imports amounted to \$39 billion (an increase of 0.8%).⁶

When analyzing the composition of exports, it can be seen that the share of gold exports (\$ 7.5 billion) and services (\$ 7.2 billion) is high. Exports of industrial goods amounted to \$ 4.2 billion, accounting for about 15.6 percent of total exports. Products manufactured in FEZs fall into this group of industrial goods and chemical products, but tax mechanisms are not sufficiently targeted to increase their share.

Current system of tax incentives for free economic zone participants

In Uzbekistan, FEZ participants benefit from differentiated tax incentives based on the size of their investment. The 2020 Law on Free Economic Zones and amendments to the Tax Code regulate this system.

Currently, investors are exempt from profit tax, property tax, land tax, and water resource use tax for the following periods:

- When investing **from \$300,000 to \$3 million - 3 years;**
- When investing **from 3 million to 5 million dollars - 5 years;**
- When investing **from 5 million to 10 million dollars - 7 years;**
- When investing **more than \$10 million - 10 years** (for the next 5 years, the rates of profit tax and single tax payment will be reduced by 50%).

In addition, SEZ participants are exempted from customs duties (except for customs clearance fees) when importing raw materials, supplies and components necessary for production. These benefits were further simplified by administrative reforms in January 2024, in particular, SEZ directorates were given the authority to independently approve investment projects. However, the main drawback of this system is that benefits are often measured by investment volume (input), and not by export volume or efficiency (output). This creates conditions for many enterprises to enter the SEZ with an eye only on the domestic market, as a result of which export potential does not increase as expected.

Export Diversification and Production Capability Index (PCI) Analysis

⁶International Trade Administration. (2025, December 9). Uzbekistan - Market overview. US Department of Commerce. <https://www.trade.gov/country-commercial-guides/uzbekistan-market-overview>

Uzbekistan's export potential is characterized by high concentration and low diversification. According to 2023 data, the export concentration index was 0.311, which is almost three times higher than the average for Central and South Asian countries (0.117). The export diversification index was 0.739, which is also worse than the international average.

International experience: lessons from tax policy in Turkey and China

to promote exports could serve as a model for Uzbekistan. Turkey has 19 free trade zones, with a trade volume of over \$28 billion. The most important aspect of the Turkish model is that tax incentives are directly linked to the share of exports.

In Turkey, manufacturing companies that export at least 85 percent of their products abroad are exempted not only from profit tax but also from 100 percent personal income tax (PIT) on their employees' wages. This measure forces companies to enter global markets and increases product competitiveness. In Uzbekistan, however, there is no such strict export requirement for FEZ participants, which reduces the efficiency of the zones.

The Chinese experience shows the evolutionary development of SEZs. While in China the initial emphasis was only on tax incentives, now the focus has shifted to the creation of "Smart Zones" and technological clusters. Chinese SEZs act not only as tax havens, but also as centers for technology transfer and innovation. At a time when Uzbekistan is also planning to abolish export subsidies in accordance with WTO requirements from 2025, it will be relevant to direct tax incentives to "green" and high-tech investments.

Taxation problems and scientific debates

There are two different approaches at the international level to the application of tax incentives in SEZs. The first approach (Unilateralism) supports the right of states to establish liberal tax regimes to increase their investment attractiveness. The second approach (Multilateralism) requires the regulation of preferential zones based on international tax standards and the principles of fair competition.

The main challenge facing countries like Uzbekistan under BEPS Action 5 is to prevent "artificial tax savings" in SEZs. If an enterprise registers in an SEZ only to avoid taxes, but does not create real added value there, this is considered a harmful tax practice. Studies show that the wide-ranging preferences provided for SEZs sometimes lead to a decrease in state budget revenues (Tax Expenditures), but do not provide the expected growth in exports. Also, as a result of tax reforms in Uzbekistan that began in 2019, the VAT rate was reduced from 20 percent to 12 percent, as well as the profit tax and social tax rates. Although this reduced the tax burden in the overall economy, it relatively reduced the "exclusive" attractiveness of SEZs. Now, not only low tax rates,

but also the quality of infrastructure, the stability of energy supply, and the transparency of the judicial system are becoming more important for investors.

Results and scientific explanation

conducted, the following important conclusions were reached:

1. **between investment and exports:** FDI of \$11.9 billion attracted in 2024 is mainly directed to the energy, metallurgy and chemical industries. SEZs are receiving 25-30 percent of these investments. For example, investments attracted in the Navoi SEZ have had a positive impact on increasing labor productivity, but the share of high-tech products in the export structure remains low.
2. **Territorial imbalance:** The bulk of export and trade turnover (38.8%) falls on Tashkent city. SEZs in regions such as Surkhandarya (0.6%) and Jizzakh (2.2%) are showing low performance due to infrastructure and logistics problems. This means that tax incentives alone are not enough for regional development.
3. **Institutional barriers:** The low "Institutions" component of the PCI index (0.39) is a major factor limiting export diversification. Corruption, bureaucracy, and complex licensing processes are "washing out" the positive impact of tax incentives.
4. **Tax preferences and the WTO:** Uzbekistan's accession to the WTO will require a review of export-oriented subsidies and preferences for SEZ participants. Dramatic changes in this regard are expected from 2025.

Conclusion and suggestions

The following proposals are put forward to improve the taxation system in Uzbekistan's free economic zones and thereby increase export potential:

1. **Linking incentives to "Performance" (Performance-based incentives):** When granting tax incentives to SEZ participants, it is necessary to establish not only the investment volume, but also the export share (at least 50-70%) and the level of added value (at least 30%) as the main criteria. As in the Turkish experience, it is advisable to introduce tax incentives on wages for enterprises with high export performance.
2. **Focusing tax incentives on "Quality":** In accordance with WTO requirements, it is necessary to abandon direct export subsidies and introduce a mechanism for reducing the profit tax base (R&D tax credits) for enterprises that introduce "green economy", energy efficiency and innovative technologies. This will encourage enterprises to produce technologically complex products.
3. **Deduction of logistics and infrastructure costs:** Given Uzbekistan's geographical location, it is necessary to expand the mechanism for reimbursing part of the export-related transport and logistics costs of FEZ participants

through tax payments or excluding them from the tax base. To improve PCI indicators, private investments in infrastructure should be exempted from tax.

4. **Encourage human capital development:** Expenditures incurred by SEZ enterprises on retraining and upgrading their employees' skills should be deducted from profit tax at a double rate. This will be the basis for increasing labor productivity and ensuring the export of technologically complex products.
5. **Digitalization of management and transparency:** It is necessary to fully digitize the "Single Window" system in managing the activities of SEZs and complete the automation of tax and customs procedures to reduce corruption risks. The process of decentralization of administrative powers, which began in 2024, should be further strengthened.

In conclusion, Uzbekistan's SEZs should stop being just "zones of privileges" and become "clusters of innovation and high efficiency." Tax policy should serve as a strategic tool that encourages enterprises not only to survive, but also to become competitive in global markets. This will create an opportunity to achieve economic goals set for 2030 and ensure export diversification.

References:

1. Baker McKenzie. (n.d.). *OECD's tax dispute resolution programs are a welcome first step*. <https://insightplus.bakermckenzie.com>
2. Chambers and Partners. (2025). *Tax controversy 2025: South Korea*. <https://practiceguides.chambers.com>
3. Daryo.uz. (nd). *Procedure for pre-trial resolution of tax disputes in Uzbekistan*. <https://daryo.uz>
4. European Bank for Reconstruction and Development. (n.d.). *Cross-regional court performance assessment: Country report*. <https://www.ebrd.com>
5. International Monetary Fund. (n.d.). *Republic of Uzbekistan*. <https://www.imf.org>
6. Legal 500. (2025). *South Korea: Tax disputes – Country comparative guides*. <https://www.legal500.com>
7. The Macfarlanes. (2025). *Mutual agreement procedures (MAP): OECD publishes new manual for effective international tax disputes*. <https://www.macfarlanes.com>
8. Organization for Economic Cooperation and Development. (2025). *Disputes: Tax administration 2025*. <https://www.oecd.org>

9. Organization for Economic Cooperation and Development. (2025, October 31). *Tax certainty: OECD releases new statistics on tax disputes, showing positive outcomes but with challenges remaining.* <https://www.oecd.org>
10. of the Republic of Uzbekistan. (nd). *Results of the practice of pre-trial resolution of tax disputes.* <https://gov.uz>