

## Cluster-oriented reform model for free economic zones

The first free economic zone (FEZ) in Uzbekistan was established in 2008. Since then, 20 additional FEZ were created throughout the country. Drawing on international experience, a reform process has been initiated in 2018 to increase the effectiveness of the zones. As one reform option, a cluster-oriented model has been examined.

Considering the preconditions in Uzbekistan, Tashkent and the surrounding region offer the most promising potential for utilising synergies between zone and cluster development. A phased approach is recommended. The initial focus should be on developing a pharma park in Tashkent and on implementing a cluster management structure covering the capital as well as the surrounding region and pharma zones (Bustonlik, Parkent, Sirdaryo). In a second phase, further pharma zones, companies and institutions could be integrated. Finally, the approach could be applied to other industries.

### Development of FEZ in Uzbekistan

The free economic zones of Uzbekistan are an economic policy instrument that falls into the group of special economic zones (SEZs). While there is no generic definition of what comprises an SEZ, the term usually denotes the concept of a spatially delimited area within which governments facilitate industrial development through fiscal and regulatory incentives and infrastructure support. There are estimations of up to 5,400 zones of various types worldwide.

Uzbekistan established its first FEZ in Navoi in 2008 followed by 20 additional ones over the following years. The zones vary with respect to their profile. The first zones covered a broad spectrum of industries. In the recent past, a number of specialised zones have been established, with a focus on pharma, agriculture and tourism.

### Synergies between zone and cluster development

In the industrial policy context, recent experience has shown a promising potential to generate mutually reinforcing effects between zones and clusters. Clusters are geographical concentrations of interconnected companies and institutions focusing on related value chains.

Clusters can increase the attractiveness and impact of zones, while zones can act as a catalyst for the development of clusters. The combination also allows to use public funding more efficiently as both new investors and local companies can benefit from facilities and services provided. Spill-over effects can be maximised.

### Preconditions in Uzbekistan

However, those mutually reinforcing effects are not automatic. There are certain prerequisites to be considered: First of all, there have to be (emerging) clusters with a “critical mass”. A cluster-oriented approach requires a sufficient concentration of players with related activities and common interests to generate synergies and spill-over effects.

Furthermore, there have to be zones with a profile in line with the needs of the clusters. The zones should offer a favourable environment for the relevant target groups and their interaction. Finally, a number of general framework conditions are of high relevance, such as strong linkages between the government, academia and businesses as well as efficient intra-governmental coordination and policy alignment.

Considering the findings from the assessment of the preconditions, the pharmaceutical industry offers the most promising potential for utilising synergies between zone and cluster development. The industry comprises approximately 150 companies and 10,000 employees with substantial growth potential. It shows a positive investment track record with various planned projects.

The concentration of pharmaceutical companies, research / educational institutions, service providers and government institutions in Tashkent and the surrounding region offers promising conditions for the development of a cluster. Cooperative relations already cover areas such as certifications, trainings and maintenance of equipment and technology-related aspects. Furthermore, in the recent past, Uzbekistan established 8 pharmaceutical FEZ with a clear target-group specific profile and focus.

In comparison, other FEZ and industries in Uzbekistan that have been examined in the context of our analysis offer less promising conditions for a cluster-oriented approach from today’s perspective. In most cases the regional concentration of companies and educational / research institutions in related value chains is too low to generate substantial spill-over effects and to attract specialised suppliers or service providers.

At the same time, when designing policy measures it needs to be considered that the pharmaceutical industry and the relevant eco-system are still at an early stage of development. Linkages between all stakeholders need to be strengthened to further unlock the cluster potential. Furthermore, with the existing pharmaceutical zones only part of the investment and development potential can be tapped. The existing zones are

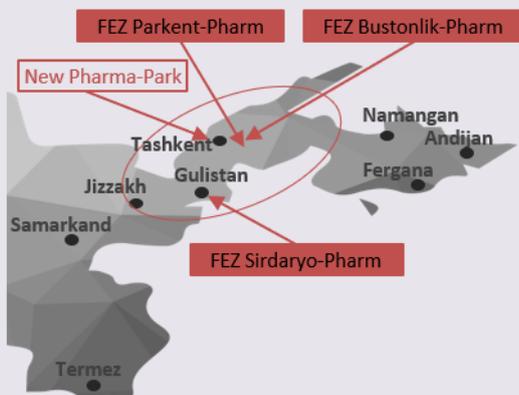
suitable for manufacturing operations and related function, but there is no offer for more innovation-oriented projects that prefer urban locations with needs-oriented support services in proximity to research and educational institutions.

**Recommended phased approach**

In light of these findings, a phased approach is recommended:

1. The initial focus should be on developing a pharma park in Tashkent and setting up a cluster management structure covering the capital as well as the surrounding region and pharma zones (Bustonlik, Parkent, Sirdaryo).
  - A main focus of the pharma park should be on innovation-oriented projects. It should provide an entry platform for international investors and take over a hub function for the cluster. The park should also comprise research, training and educational institutions as well as conference / meeting facilities to support networking activities.
  - The cluster management structure should integrate actors from government, academia and business. Taking into account international good practice, the cluster management should provide services in the fields of information and cooperation platforms, business and skills development, innovation transfer and cluster marketing. It should be assessed if synergies within the institutional landscape can be utilised by combining park and cluster management functions.
2. In the second phase, further pharma zones, companies and institutions from other parts of the country could be integrated.
3. Finally, the approach could be applied to other industries depending on the results from the first and second phase.

**Proposed pharma cluster in the capital region**



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**Way forward**

To support the implementation of the recommendations, a roadmap for the development of a pharma cluster and park was developed by GET Uzbekistan. It specifies the portfolio of services and activities as well as the organisational and funding model for the development and management of both the cluster and park. A lean organisational model is recommended that combines both functions in one organisation offering considerable synergies with respect to the provision of “soft” infrastructure. The management of both the park and the cluster should be self-financing in the medium term. The roadmap concludes with an action plan for the initial development phase (three years).

**Author**

Björn Vogler, [vogler@berlin-economics.com](mailto:vogler@berlin-economics.com)

**Editor**

Robert Kirchner, Woldemar Walter

A more comprehensive analysis is provided by the Policy Study [“Leveraging clusters to increase the effectiveness of free economic zones in Uzbekistan”](#)

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BE Berlin Economics GmbH | Schillerstraße 59 | 10627 Berlin  
+49 30 / 20 61 34 64 - 0 | [info@berlin-economics.com](mailto:info@berlin-economics.com) | [Impressum](#)