

The role of government tax regulations on attracting foreign investments

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Abstract: Foreign direct investment is a cornerstone of economic growth, technology transfer, and job creation in developing and developed economies. Among the many factors influencing investment decisions, government tax and customs policies play a decisive role. Competitive corporate tax rates, targeted tax incentives, and predictable fiscal frameworks reduce operational costs and signal stability to international investors. At the same time, efficient customs regimes marked by simplified procedures, reduced tariffs, and transparent regulations lower trade barriers and enhance supply chain reliability. Together, these policies not only improve the ease of doing business but also foster investor confidence by minimizing uncertainty and administrative burdens. This article presents how balanced, transparent, and strategically aligned tax and customs policies are essential tools for governments seeking to attract and retain foreign investment, ensuring long-term economic competitiveness. In addition the article gives some recommendations on improving tax system and customs clearance practices to make the investment environment appealing to foreign investments.

Keywords: foreign investments, barriers on attracting external investments, tax regulations, customs regulations, ease of doing business in a foreign country

Introduction

Foreign investments play crucial role in boosting national economy in many countries, especially for middle income and low middle income countries. The core objectives of economic policy are to achieve economic growth, stability and full employment. These goals are pursued to improve the standard of living and ensure prosperity for citizens. Achieving these goals requires the government to invest in infrastructure, education, technology, supporting entrepreneurship and other sectors. For developing countries financing these big projects is overwhelming with their own capital, so they frequently rely on foreign investments. But attracting foreign investments is not easy task for many countries, because before making any investments into abroad investors scrutinize every aspect of a country. Government policy - particularly tax and customs regulations - plays a significant role in shaping the attractiveness of destinations for such investments. Tax incentives, customs duty exemptions, and transparent regulatory regimes signal to foreign investors that a host country is open, stable, and cost-competitive. At the same time, misaligned tax and customs regimes can deter investment by raising costs, introducing uncertainty, or complicating logistics.

This paper aims to analyse how government tax regulations influence foreign investment flows, drawing on empirical evidence, case studies with a special focus on the Republic of Uzbekistan, and recent global trends.

Methodology

The analysis draws on a combination of literature review, qualitative and quantitative methods. In literature review we explore academic and working-paper literature on the relationship between tax incentives, customs regimes.

Qualitative analysis involves reviewing key documents from Uzbekistan on tax and customs incentives for foreign-investment enterprises.

Whereas quantitative analysis is based on review of global FDI flow statistics to contextualize how changes in investment flows may correspond to regulatory shifts. By combining these methods, the paper draws connections between the structure of tax/customs regimes and the attractiveness of a jurisdiction for foreign investment.

Results and Discussion

Tax regulations that affect investment environment

Tax rates are crucial component for investors who want to do business in another country. Because tax rates affect companies' profitability as investors want to increase their capital invested. Countries use tax rate as a tool to attract foreign investment, whether it is FDI or portfolio investment. Low tax rates mean investors can retain more profits. Ireland for example uses low tax rate as a way to increase its investment environment. The country has 2 main corporate tax rates:

- standard trading rate 12.5%
- non trading rate 25%

Standard trading rate applies to profits generated from a company's normal business activities within Ireland. This is one of the lowest corporate tax rates in the world and a major factor in attracting multinational companies.

On the other hand, non-trading rate for income from sources like rentals, investments, and certain land dealings. The effective tax system has long been a magnet for multinational companies like Google, Apple, and Facebook, which established European headquarters there.

Tax incentives and holidays are other tool that appeals investment into the country. Tax incentives might be low tax rate for investing in certain geographical areas, industry or sector that help improve live standards of certain people or professionals. Governments often offer tax holidays, exemptions, or reduced rates to encourage investment in priority sectors.

Singapore provides tax incentives for high-tech and financial services, which has helped it become a global hub for finance and innovation.

Tax holiday is also attractive instrument as it helps new established companies to delay tax payments for a specified period. Many new firms may not generate much profit in initial months or years so some governments give tax holidays during which period a firm does not pay taxes.

Customs duties and trade taxes are also vital for international companies. High import/export duties raise costs for companies reliant on global supply chains. Thus multinational companies seek to establish their foreign enterprises in countries where there is low tax on import, export and tariffs. Tariffs and other state duties may increase operational risks of a firm. Having clear and easy customs regulations attract FDI. Vietnam reduced tariffs after joining trade agreements like the CPTPP, which boosted FDI in manufacturing and electronics. Vietnam has been progressively removing tariffs on EU goods, with 65% of duties removed when the agreement took effect. Most duties on machinery and appliances have been removed, with the rest to be gone by August 2025. These changes on tariffs can help Vietnam to boost its economy.

The table-1 below summarizes how tax policy may affect foreign direct investments. Stable and competitive tax rates tend to attract more foreign direct investment, while high or unpredictable taxes often discourage it.

Table-1.

How tax policy affects FDI

Tax Policy Factor	Positive Impact on FDI	Negative Impact on FDI
Low corporate tax	Attracts multinationals	High rates deter entry
Tax incentives	Encourages sectoral growth	Can erode revenue if poorly designed
Double taxation treaties	Prevents double burden	Absence discourages cross-border investment
Stable rules	Builds investor trust	Sudden changes create risk
Low customs duties	Facilitates trade & supply chains	High tariffs raise costs

How different countries set low corporate tax rates to attract foreign investment

Countries with competitive tax regimes often see higher inflows of foreign direct investment, especially in finance, tech, and manufacturing. The reason is lower tax burdens increase net profits, making these countries appealing for multinational corporations. Countries like Ireland, Hungary, the UAE, Singapore, and Hong Kong are especially attractive to foreign investors because they combine favorable tax regimes with strong business infrastructure and global connectivity. Beyond tax rates, these countries often provide incentives like free zones, simplified regulations, and strong legal protections.

Table-2 below shows the different tax rates of some selected countries. These countries set low corporate tax rates to promote business environment, foster entrepreneurship. Let's take an example of Qatar.

Qatar applies a flat 10% corporate tax on income sourced within the country. The system is simple and predictable, making it attractive to foreign-owned companies in approved sectors. Businesses fully owned by Qatari or GCC nationals are typically exempt, while oil and gas operations face significantly higher rates.

You can establish a company in Qatar Free Zones or the Qatar Science and Technology Park, where qualifying businesses enjoy full foreign ownership and up to 20 years of 0% corporate tax. Outside Free Zones, 100% foreign ownership is still possible in many sectors, subject to approval.

Table-2.

Countries with corporate tax rates (2025) [1]

Country	Corporate Tax Rate	Why It Attracts Investors
Ireland	12.5%	Known for its pro-business environment, EU membership, and strong tech/finance sectors.
Hungary	9%	Lowest corporate tax rate in the EU, plus access to European markets.
United Arab Emirates (UAE)	0%-9%	Free zones with 0% tax, strategic location between Europe and Asia, strong infrastructure.
Hong Kong	8.25%-16.5%	Simple tax system, gateway to China, strong financial hub.
Singapore	17% (effective rates often lower due to incentives)	Political stability, world-class infrastructure, and strong IP protection.
Estonia	0% on reinvested profits (20% only on distributed profits)	Encourages reinvestment and growth, digital-friendly governance.
Qatar	10%	Strategic Gulf location, energy wealth, and

Country	Corporate Tax Rate	Why It Attracts Investors
		growing diversification policies.

Countries listed in table-2 are appealing business areas for many companies seeking to expand into new areas. They have simplified tax regulations and doing well in attracting investments.

Tax system changes in Uzbekistan in recent years

Uzbekistan has optimized its tax system in recent years and gave many benefits to foreign entrepreneurs. The government set 15% corporate income tax rate applicable to many enterprises [2]. Other tax rates are also competitive compared to other neighbouring countries. Value added tax, social tax and personal income tax are 12% . In addition, certain industries like IT and renewable energy or regions in less-developed districts may qualify for reduced rates or exemptions [3]. The government has emphasized predictability in tax policy, which is crucial for long-term investment planning.

Uzbekistan's corporate tax rate is 15%, with additional incentives for certain sectors and regions. This positions the country as a moderately low-tax jurisdiction in Central Asia, aiming to attract both domestic and foreign investment. [4]

Tax recommendations for attracting investment

To attract more foreign investment, government should focus on maintaining competitive corporate tax rates. Keeping the corporate income tax moderate compared to regional peers. Offering targeted tax incentives like giving sector specific incentives. Prioritize industries with high growth potential such as IT and logistics. Regional incentives that provide reduced rates for companies investing in certain undeveloped regions of a country. Tax holidays for new investors in priority sectors like corporate tax exemption for some period makes business environment prosperous. Organizing Special Economic Zones with reduced VAT and customs duty exemptions interests many investors.

The most effective tax strategy to attract investment is a balanced approach - keep corporate tax rates competitive, offer targeted and transparent incentives, simplify administration, and ensure policy stability. This combination builds investor confidence and encourages sustainable, long-term foreign direct investment.

Conclusion

Government tax rates play a decisive role in shaping the investment climate of any country. While low and competitive corporate tax rates can serve as a powerful magnet for foreign direct investment, they are most effective when paired with stability, transparency, and supportive economic policies. Investors are not only drawn to the promise of reduced tax burdens but also to the assurance that tax regimes will remain predictable and fair over time. Ultimately, a balanced approach where governments maintain reasonable tax rates while offering targeted incentives and ensuring efficient administration creates the trust and confidence that investors seek. In this way, tax policy becomes not just a fiscal tool, but a strategic instrument for long-term economic growth and global competitiveness.

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