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***Research paper***

# Role of Tax and Legal Incentives in Attracting Foreign Capital in The Context of International Investment Policy

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**Abstract**

The study aimed to comprehensively examine the impact of tax and legal incentives on attracting capital into the economy in the examples of Kyrgyzstan and Poland. The study discusses the key aspects of tax and legal incentives, such as tax rebates, preferential rates, and tax holidays, as well as legal measures such as property rights protection and simplification of registration procedures, which create a favourable investment climate for foreign investors. The study results demonstrated that tax and legal incentives have a significant impact on economic development, contributing to the growth of foreign investment, job creation, and economic stability. This provides opportunities to improve the investment climate and stimulate the development of national economies, reducing dependence on external financing, which is especially important in the context of global economic instability. The analysis of incentives in Kyrgyzstan and Poland highlights different approaches to attracting foreign capital, including the creation of special economic zones, preferential conditions for investors, and investment protection agreements. Establishing tax and legal incentives allows governments to more effectively control strategically important resources, contributing to sustainable economic growth and national stability in the face of international competition. The experience of Kyrgyzstan and Poland demonstrates the importance of a comprehensive state policy for the effective attraction of foreign investment. The use of an optimal combination of tax and legal incentives allows not only to attract foreign capital but also to maintain economic security, strengthening the country's competitive position in the international market.

***Keywords***: *Economic Zones; External Financing; Global Competition; Investment; National Security; Regulatory Measures.*

## 1. Introduction

Creating a favourable investment climate through tax and legal incentives is one of the key tasks for countries in the context of growing global competition for foreign capital and the desire for economic development. In current-day reality, when international capital flows are a central aspect of the economic growth of countries, the effective use of incentives to attract foreign direct investment (FDI) is becoming critical. Governments face the need to introduce targeted tax and legal measures that create attractive conditions for foreign investors and provide legal stability for long-term investments. These incentives help to reduce the national economic vulnerability and strengthen its position in the global market, especially in times of instability and political challenges.

A variety of fiscal policies and perks offered by the government to promote foreign investment are referred to as tax incentives (Shahini & Shahini, 2024; Olendiy et al., 2023). These include preferential tax rates, which reduce the tax burden for investors relative to local businesses; tax holidays, which provide investors with a temporary exemption from paying taxes; and accelerated depreciation, which enables investors to write off capital assets more quickly than would be permitted under standard accounting rules. By lowering the financial burden on foreign investors, these tax policies hope to increase a nation's appeal to long-term investors. Conversely, legal incentives are made up of laws that give investors security and protection. These include investment treaties, which establish bilateral agreements between nations to safeguard investors' interests; simplified registration procedures, like the implementation of single-window systems, which lessen administrative burdens for businesses; and property rights protection, which guarantees that investors' assets are safe from expropriation or other unlawful seizure. Foreign investors can operate with confidence thanks to these legal measures, which contribute to the creation of a predictable and stable legal environment.

Past studies have shown that tax and legal incentives have a significant impact on foreign investment and contribute to economic development. Tax measures, such as preferential rates, tax holidays, and special economic zones, create financial advantages for investors and encourage investment in priority sectors (Hajiyev et al., 2025). At the same time, legal incentives, including property rights protection, investment protection treaties, and simplified business registration procedures, provide legal protection for investors and reduce the risks associated with doing business in new markets. Studies by such researchers as Katitas & Pandya (2024), and Ilzetzki & Thysen (2024) emphasise that the successful application of tax and legal incentives requires a comprehensive approach that considers economic, legal, and institutional factors. Studies have shown that countries that provide reliable legal guarantees and competitive tax conditions attract more investment and demonstrate sustainable economic growth.

The concept of stimulating foreign investment through tax and legal measures has long attracted the attention of researchers studying the impact of these factors on economic growth. As noted by C. Fu et al. (2023) and X. Zhang et al. (2024), comprehensive tax and legal incentives have significant potential to create a sustainable investment climate. The development of an efficient legal system that promotes investor protection and contractual obligations may be more important for long-term economic growth than tax incentives themselves. In addition, studies by Topçu (2024) and Elgueta (2024) show that legal predictability and reliable legal guarantees are key to reducing risk among foreign investors.

The studies conducted by Lähteenmäki-Uutela et al. (2021) and Nadeem & Graepel (2024) also emphasised the importance of legal incentives, especially in terms of protecting property rights and simplifying administrative procedures for foreign companies. According to the authors, providing legal stability through protection mechanisms and double taxation treaties significantly reduces risks for investors, creating conditions for long-term investment. Such legal measures are important elements in attracting capital, especially in emerging economies where investors may face increased risks.

The studies conducted indicate the need for an integrated approach to creating effective incentives. Ünlü (2023) and Gurshev (2024) emphasised that transition economies such as Kyrgyzstan face challenges in attracting foreign investment. These challenges are not only related to tax aspects but also to the need for legal sustainability and transparency in the business climate. They emphasised that tax incentives alone are insufficient without additional legal safeguards, as high risks of legal instability may discourage potential investors. Other studies, such as those by Hashi & Lowitzsch (2024) and Lifshits (2020), examined the benefits of legal incentives in the European context, analysing examples from countries of the European Union (EU), including Poland. The study emphasised that Poland, by using favourable tax rates and special economic zones, has been able to significantly increase FDI over the last two decades, which has improved its economic situation and strengthened the country's position on the international stage. The findings suggest that a clear strategy of tax and legal incentives is crucial for the success of investment policies, especially in regions with a high level of competition for capital.

Numerous studies confirm that tax and legal incentives should be tailored to the economic conditions of a particular country, as shown in Amberger & Kohlhase (2023) and Sarmento (2023). The study noted that successful examples of attracting capital depend on the ability of a country to address the specifics of its economy and adapt incentive measures to meet the needs of the local market. Only a comprehensive approach to the provision of benefits and legal guarantees can ensure sustainable development and stable capital attraction.

The study provided a comprehensive analysis of tax and legal incentives for attracting FDI, with a focus on the practices used in Kyrgyzstan and Poland.

The study aims to assess the effectiveness of tax and legal incentives in Kyrgyzstan and Poland. The main tasks are:

1. To study tax incentives for foreign investors in both countries, including special tax regimes and exemptions.
2. To analyse legal mechanisms aimed at protecting investors' interests, such as property rights and international investment treaties.
3. To compare these incentives and their impact on investment, job creation, and economic development.

## 2. Materials and Methods

This study applies a comprehensive approach to analysing the role of tax and legal incentives in attracting foreign capital. Kyrgyzstan and Poland were chosen for the study because of their unique experience in implementing tax and legal incentives to attract foreign capital, which allows for valuable comparative results. Poland is a member of the European Union with a developed investment support system and stable economic indicators, which were used to assess how effectively investment incentives work in an integrated economy. Kyrgyzstan, on the other hand, represents a country with a transitional economy and specific challenges for the investment climate, which was used to assess the effectiveness of incentives in the context of limited resources and instability. This choice of countries compares the results of incentives in different economic and legal contexts, which enhances the scientific value of the study and contributes to a deeper understanding of successful approaches to attracting investment.

The methodology includes several stages aimed at a comprehensive study of incentives in Kyrgyzstan and Poland. At the first stage, data for the theoretical framework was collected, including an analysis of tax incentives, such as tax breaks, reduced tax rates and tax holidays (PwC Worldwide Tax Summaries 2024a, 2024b, Sawaryn 2023) and legal mechanisms, property rights protection, simplification of procedures, investment protection treaties (UN Trade and Development Investment Policy Hub 2024a 2024b, World Customs Organisation 2024). Legislative acts of both countries were analysed the main tax laws, regulations on the protection of property rights, regulations on special economic zones, as well as Law of the Kyrgyz Republic No. 66 "On Basic Principles of State Investment Policy" (2003) and Law of the Republic of Poland "On Local Taxes and Payments" (1991). In addition, reports of international organisations covering investment attractiveness and economic development were used (Bertrand et al. 2024, International Institute for Management Development 2023).

The second stage of the study conducted a comparative analysis of the tax and legal incentives provided by Kyrgyzstan and Poland to attract foreign investment. As such, macroeconomic indicators reflecting the investment potential of each country, including data on Gross Domestic Product (GDP) growth, investment levels, and economic stability, were analysed (World Bank Group 2020). Based on a detailed study of the current legislation of both countries, as well as tax incentives, special economic zones, and legal guarantees for investors, a comparative analysis of key incentives was conducted. This analysis revealed significant differences in approaches to regulating investment activity and identified the most effective and attractive instruments for foreign investors in the context of each country, which provided the basis for further evaluation of their effectiveness.

The third stage of the methodology included a comprehensive and in-depth assessment of the effectiveness of tax and legal incentives in Kyrgyzstan and Poland. This stage provided a detailed evaluation of the measures, identifying both positive and potential negative effects of the incentives introduced. The assessment focused on several key indicators of effectiveness, including the extent to which the incentives contributed to increasing FDI, creating jobs, and improving economic stability. By examining these criteria, the study aimed to determine how tax and legal incentives fostered economic growth and development in the countries under consideration, providing insights into their impact on both immediate and long-term economic outcomes.

The fourth stage involved analysing the successes and challenges faced by Kyrgyzstan and Poland in implementing incentives. Administrative barriers, legal restrictions, and other factors affecting the effectiveness of using incentives to attract foreign capital were examined. The key mechanisms and challenges affecting the attractiveness of these countries for foreign investors were identified. The comparative analysis of tax and legal incentives applied in Kyrgyzstan and Poland identified key mechanisms and strategies through which tax and legal policies contribute to strengthening the economic stability of countries, reducing risks for investors and increasing their competitiveness in the international arena.

# 3. Results

## 3.1 Tax and legal incentives as a strategic method for attracting foreign investment

Tax and legal incentives are central to creating the conditions that encourage foreign investors to invest in a country's economy. In current realities, where countries are actively competing to attract foreign direct investment, such incentives are becoming an integral part of investment policy. Tax breaks, reduced tax rates, tax holidays, and reliable legal guarantees not only reduce financial risks for foreign investors but also increase the overall stability of invested capital, which is an important aspect of long-term business planning. Tax incentives are one of the most effective ways to encourage foreign investment. Tax rebates help to reduce the financial burden on investors by reducing the amount of tax payments payable in the first years of an investment project. This is particularly important for capital-intensive industries where the initial costs of equipment, construction, or product development are high, and the payback period can take several years. Such tax credits allow foreign companies to reach profitability earlier, which encourages the attraction of funds to various sectors of the economy.

Preferential tax rates for foreign investors are also beneficial for national competitiveness in the global arena. Reducing the overall level of taxation on investment makes a country more attractive for capital investment as it reduces the financial pressure on businesses (Moshenets et al., 2025; Ketners et al., 2025). Preferential rates can be differentiated according to economic sector, investment size, or project location, allowing governments to target favourable sectors or promote less developed regions. Such measures increase the profitability of projects and stimulate increased competition in the domestic market, which in turn improves the quality and diversity of goods and services.

Tax holidays, or tax exemptions for a certain period, are also a common tool that provides significant advantages for foreign investors. Such policies are particularly attractive for start-ups and new companies that are just entering the market and often face high start-up costs, such as purchasing equipment, renting premises, and product development. Tax holidays allow investors to avoid part of the tax costs at the initial stages of operations, allowing them to use the savings for company development, recruitment, production expansion, or marketing activities (Llazo et al., 2024; Ismayilov et al., 2024). This allows foreign companies to gain a firmer foothold in the market and achieve financial stability.

Figures on the impact of tax incentives on attracting FDI show a significant increase in FDI in countries that actively use tax incentives. Poland, which also offers preferential tax rates and tax holidays, especially in economic zones, demonstrates more moderate FDI growth rates of around 2-3% per year (Table 1). Polish tax incentives support priority sectors such as manufacturing and high technology, which have contributed to increased investment, especially from the EU. Kyrgyzstan, while striving to create an attractive environment for investors, faces a more challenging environment. Attracting FDI to Kyrgyzstan is hampered by high investment risks and a less developed legal system, which limits the effect of tax incentives and reduces the growth rate of FDI, making it very volatile. This comparison shows that tax incentives are effective when the legal environment is stable and risks are low, which enhances the country's competitiveness in the global competition for foreign capital. In general, tax incentives create an economically favourable environment for foreign investors, reducing the overall cost of doing business and reducing the risks associated with the return on investment.

**Table 1:** Comparative analysis of economic growth and FDI in Kyrgyzstan and Poland (2014-2023)

| Country | Year | GDP (billion USD) | FDI (%) |
|---|---|---|---|
| Kyrgyzstan | 2017 | 7.7 | -1.4 |
| | 2018 | 8.2 | 4.3 |
| | 2020 | 8.2 | -4.9 |
| | 2021 | 9.2 | 2.4 |
| | 2023 | 13.9 | 3.5 |
| Poland | 2017 | 524 | 2.3 |
| | 2018 | 588 | 3.3 |
| | 2020 | 599 | 3.2 |
| | 2021 | 681 | 5.3 |
| | 2023 | 811 | 3.9 |

Source: compiled by the authors based on World Bank Group (2024a).

Legal incentives, in turn, provide an additional layer of protection for foreign investors by reducing legal and administrative risks. The protection of property rights is a fundamental aspect of stability, as it ensures the security of investments from possible expropriation or interference by government agencies (Bashuryn et al., 2024). According to J. Bertrand et al. (2024), countries with higher levels of property protection attract 20-30% more foreign investment, as a robust legal system strengthens investor confidence. For example, the introduction of improved property rights protection mechanisms in Eastern European countries in recent decades has led to a 15-20% increase in FDI.

Simplified procedures for registering investments, setting up a business, and obtaining necessary permits are also an important element of legal incentives. Many governments are introducing the Single Window System (SWS), which allows investors to obtain all the necessary documents without unnecessary administrative barriers, significantly reducing the time and cost of market entry. The introduction of the SWS also has a positive impact on foreign investment, as it simplifies the procedure for registering a business and obtaining permits.

Bilateral or multilateral investment protection treaties provide foreign investors with the opportunity to protect their rights through international arbitration mechanisms in the event of a conflict (Lazaj et al., 2024). This reduces the risks associated with unfair treatment or changes in conditions for foreign companies, which is an important factor in long-term planning. Such agreements increase the level of investor confidence in the state, as they guarantee compliance with internationally recognised standards in investor relations. International indices, such as the Global Competitiveness Index and the Property Rights Protection Index, confirm that improved legal conditions contribute to capital growth. For instance, after the 2015 reforms aimed at protecting property rights and improving administrative procedures, Poland moved up several positions in the Global Competitiveness Index (International Institute for Management Development 2023) to 41st place. This contributed to a 9% increase in FDI in high-tech sectors, including pharmaceuticals and biotechnology.

Tax and legal incentives are critical to creating a favourable investment climate (Trusova et al., 2021; Rexhepi et al., 2024). A combination of tax rebates, preferential rates, tax holidays, and legal guarantees provides optimal conditions for attracting foreign capital, which in turn stimulates economic development, increases the country's competitiveness, and contributes to the sustainable growth of the national economy. Legal incentives play an important role in creating an attractive investment climate, providing foreign investors with reliable protection of their assets and reducing the risks associated with the instability of the local legal environment (Sevastyanov & Hoidenko, 2024). One of the most important aspects of legal incentives is the protection of property rights, which is the basis of stability for foreign investors. Reliable protection of property rights allows investors to be confident that they retain control over their assets and profits. This reduces the risk of political or economic interference, such as unauthorised government action or expropriation, which is particularly important for investors operating in regions with high political or economic uncertainty.

Legal safeguards that protect property rights reduce uncertainty, giving investors greater confidence in the security of their investments and facilitating investment growth (Makhazhanova et al., 2024). Legal incentives reduce investment risks and increase the predictability of the business environment for foreign investors, which is important for attracting capital on a long-term basis. Protection of property rights, simplification of administrative procedures, and international investment protection treaties create a stable legal environment that increases the country's attractiveness on the global market (Hrynko et al., 2021). Together with tax incentives that reduce the cost of doing business, legal measures create a balanced system of incentives for foreign investors. This combination is beneficial for governments seeking to develop their economies, attract foreign capital, and maintain stability in the face of international competition.

Kyrgyzstan and Poland represent two different economic contexts, which have an impact on strategies for attracting foreign investment. Kyrgyzstan has significant natural resources in the mining sector, which plays a key role in the country's economy. The Kyrgyz economy has a moderate growth rate, with a GDP of about USD 13 billion, and the main contribution comes from the agricultural and mining sectors (World Bank Group, 2024b). The country is seeking to attract more foreign investment to diversify the economy, especially in infrastructure and energy-related sectors. According to the World Bank, the level of FDI in Kyrgyzstan remains low, at less than 3% of GDP (World Bank Group, 2024a), due to economic instability and some legal risks for investors.

Poland, on the other hand, is an EU member state with a more developed and diversified economy focused on manufacturing, agriculture, and high-tech industries. Poland's GDP is estimated to exceed USD 800 billion in 2023, and its FDI level is around 4% of GDP, which is significantly higher than in Kyrgyzstan (World Bank Group, 2024a). Poland's position in the EU, as well as its stable legal system and access to European markets, make it attractive to foreign investors. In recent years, Poland has been actively developing the information technology (IT) sector and attracting investment in infrastructure and research projects, which is also supported by national and regional investment programmes.

Both Kyrgyzstan and Poland use tax incentives as an important tool for attracting foreign investment, but their approaches and scope differ significantly. The main difference lies in the objectives of these incentives and the priority sectors for attracting capital. Kyrgyzstan focuses on creating preferential conditions for certain industries. One of the most important programmes is special economic zones (SEZs), which offer investors several tax preferences (PwC Worldwide Tax Summaries 2024b, Sawaryn 2023). Under SEZs, companies can receive significant incentives, including reduced income taxes, exemption from value-added tax (VAT), and property tax relief. These zones focus on attracting capital to the national priority sectors, such as the production and processing of agricultural products. In this context, SEZs are substantial in Kyrgyzstan's economic development strategy, allowing investors to optimise costs and increase the profitability of projects aimed at infrastructure development and job creation.

In addition, Kyrgyzstan has introduced a tax holiday programme launched in 2020 (Sustainable Development Goals 2020), which is aimed at supporting small businesses, including entrepreneurs working in the early stages of their companies. The tax holiday exempts small businesses from corporate income tax for a certain period, allowing them to reduce start-up costs and get up and running faster (Tynaliev et al., 2024). The programme provides tax breaks in sectors such as agriculture and small-scale manufacturing, which promotes the development of enterprises at the regional level. This initiative is particularly beneficial for start-ups, as it allows them to focus on development and sustainable growth without significant tax pressure at the start of their business.

However, despite the existence of these programmes, tax incentives in Kyrgyzstan remain relatively limited compared to more developed economies such as Poland. Unlike European countries, which prioritise the attraction of high-tech and innovative sectors, Kyrgyzstan focuses on basic industries, making it less attractive to large foreign investors. The national economic policy is primarily focused on the development of local industries such as agriculture and light industry, reflecting a strategy to support the local economy. However, a lack of focus on high technology and a limited set of tax incentives make Kyrgyzstan less competitive with other countries in the region in terms of attracting FDI. Additional measures, such as expanding tax incentives for high-tech sectors, simplifying administrative procedures for foreign companies, and strengthening legal guarantees for investors, could be considered to increase the attractiveness of investment in Kyrgyzstan. These steps would create a more favourable environment for long-term investments, attract technology and innovation companies to the country, and thus diversify the economy.

Poland offers diverse and flexible tax incentive programmes, thus becoming one of the most attractive countries in Eastern Europe for foreign investors (Kubiczek & Hadasik, 2021; Kubiczek, 2020). In addition to tax incentives under the SEZ (Sawaryn 2023), Poland actively supports innovative sectors of the economy, including scientific research, IT, and high-tech manufacturing. In special economic zones, foreign companies can benefit from a reduced corporate tax rate, VAT exemption, and property tax exemptions. Such zones attract capital not only to traditional industries but also to high-tech projects, making the Polish economy more attractive to international investors.

One of the key incentives in Poland is the tax holidays granted to start-ups and small businesses at the beginning of their operations (PwC Worldwide Tax Summaries 2024a). These holidays exempt companies from part of their tax obligations for up to several years, allowing entrepreneurs to minimise start-up costs and focus on business growth and development. Poland's tax holidays and incentives are specifically designed for high-tech companies, making it particularly attractive for the IT sector and R&D start-ups.

Poland is also actively using its opportunities as a member of the European Union, providing access to structural funds and financial programmes of the EU. This funding is designed to support priority sectors and regions, enabling the country to develop competitive and globally resilient sectors of the economy. For instance, the European Regional Development Fund (ERDF) (European Commission 2021) helps Polish small and medium-sized enterprises and finances the modernisation of infrastructure and the promotion of new technologies, making Poland attractive for technological and innovative companies. Horizon Europe Programme (European Union 2024) opens additional opportunities for start-ups and R&D projects by providing funding for high-tech developments and stimulating international cooperation in the field of innovation. In addition, Poland's economic development is significantly influenced by access to the structural funds of the EU, which support regional development, modernisation of enterprises, and improvement of the skills of the workforce. This assistance strengthens the country's economic sustainability and attracts foreign investors to less developed regions.

Thanks to the European Commission's Investment Plan for Europe (EC IPE), known as the "Juncker Plan" (European Commission 2019), private companies can receive long-term investments in sectors such as energy, infrastructure, digital technologies and healthcare, which helps to strengthen the Polish market and reduce risks for investors. As a result of this comprehensive system of tax and legal incentives, Poland has become one of the leaders in attracting FDI in the region, especially from the EU and the United States of America (USA). Poland's high degree of integration into European economic networks provides foreign companies with stability and access to the world's

largest markets. A flexible taxation system aimed at supporting high-tech and innovative sectors allows Poland to successfully compete for capital in the international arena and generate a strong inflow of investments into the country's economy (Balayev et al., 2025).
The incentives offered by Poland are more extensive and include a wide range of businesses, with a focus on high-tech and creative fields like manufacturing, IT, and scientific research. This includes access to EU subsidies, reduced tax rates, and significant support through SEZs. Poland's membership in the European Union provides a unique advantage by granting investors access to the EU's single market and funding programs, such as Horizon Europe, which enhance Poland's attractiveness for long-term investments, particularly in high-tech sectors.
In contrast, Kyrgyzstan's tax relief schemes primarily help small and medium-sized enterprises and industries less focused on high-tech. Its incentives are more geared towards essential sectors like agriculture and light manufacturing. Kyrgyzstan's economy, while rich in natural resources, faces significant challenges, including regional instability and an underdeveloped legal system. The country lacks access to international funding mechanisms like those available to EU members, which limits its capacity to support capital-intensive projects or innovative sectors. Additionally, Kyrgyzstan's administrative and legal systems remain less stable compared to Poland's, with ongoing efforts to improve legal protections for investors, but with hurdles like corruption and bureaucratic inefficiencies.
Poland has a more intricate and adaptable structure that offers customized incentives for various industries, aiming to attract both domestic and foreign investment. This is particularly effective due to Poland's integration into the global economic system through the EU, providing investors with robust legal protections and easy access to European markets. In contrast, Kyrgyzstan focuses its tax breaks on smaller, local enterprises and primarily offers incentives within SEZs. While Kyrgyzstan is seeking to strengthen its legal system, its relatively unstable legal environment and ongoing challenges with administrative effectiveness may limit the overall impact of its incentives.
If investors meet certain criteria, Poland provides long-term tax incentives, including continuous tax exemptions within SEZs and sustained access to EU financing programs. Poland's tax holidays and other incentives are designed for high-tech industries, offering comparatively long-term breaks, especially for start-ups. Kyrgyzstan, however, offers shorter tax holidays, primarily aimed at providing temporary relief for small businesses in their early stages of expansion. These programs in Kyrgyzstan are more limited in scope and duration compared to Poland's more extensive and long-lasting incentives.

## 3.2 Reflecting the differences between the tax and legal incentives of the Polish and Kyrgyz strategies

A comparison of Kyrgyzstan and Poland (Table 2) highlights significant differences not only in the scope of tax incentives but also in their focus and adaptation to the needs of modern investors. Poland, with a more complex and flexible system of tax and legal incentives, has a clear competitive advantage in attracting foreign capital. The country is actively focused on supporting innovative and high-tech sectors, such as scientific research, IT, and high-value-added manufacturing. The tax benefits and access to EU structural funds that Poland provides as part of its EU membership make it particularly attractive for long-term and capital-intensive projects. This allows Poland to attract significant amounts of foreign direct investment, especially from the EU and the USA, and to strengthen its economic position in Eastern Europe. At the same time, Kyrgyzstan provides tax incentives focused mainly on supporting basic industries, such as agriculture and light industry, and targeting small and medium-sized businesses. While such measures may help to promote certain sectors, they are more limited in scope and do not cover the needs of larger and more high-tech companies, which often require a more comprehensive package of incentives. Preferences for special economic zones and tax holidays provide opportunities for start-ups, but the lack of support for innovative industries and the high proportion of administrative barriers reduce the country's attractiveness for large-scale investment.

**Table 2:** Comparison of the main tax rates in Kyrgyzstan and Poland (2024)

| Type of tax | Kyrgyzstan (rate) | Poland (rate) |
|---|---|---|
| Corporate tax | 10% | 19% |
| Value-added tax (VAT) | 12% | 23% |
| Income tax (for individuals) | 10% | Progressive, from 12% to 32 |
| Dividend tax | 10% | 19% |
| Property tax | 0.3-0.8% | 2%* |
| Employer social contributions | 17% | 19-22% |

Notes: * – real estate tax rates for buildings and land are set on an annual basis and are fixed by municipalities within the limits set by the Law of the Republic of Poland "On Local Taxes and Payments" (1991).
Source: compiled by the authors based on PwC Worldwide Tax Summaries (2024a, 2024b).

Legal incentives are central in providing stability and reducing risks for foreign investors, making them a crucial element in creating an attractive investment climate. Legal security allows investors to invest more confidently, knowing that their rights to assets will be protected and dispute resolution mechanisms are available (Herus, 2024).
Kyrgyzstan is actively developing a network of bilateral investment treaties (BITs), which are aimed at creating a more favourable investment climate for foreign investors. To date, the country has signed more than 30 such agreements with key economic partners, including China, Germany, Turkey, the Netherlands, and the United Kingdom (UN Trade and Development Investment Policy Hub 2024a). BITs provide foreign investors with several guarantees, including the right to fair and equitable treatment, protection against nationalisation or expropriation of their assets, and the ability to freely export profits. Such conditions are particularly important for emerging economies, as they help to reduce investment risks and increase the confidence of foreign partners. These agreements also provide access to international arbitration mechanisms, which is a significant advantage for investors. With Kyrgyzstan's local judicial system still facing stability issues and perceived political influence, the availability of international arbitration helps to mitigate risks and protect investors' rights.
Since 2016, Kyrgyzstan has also launched a large-scale legislative reform aimed at improving the property rights protection system and developing the investment climate. The country has expanded the Law of the Kyrgyz Republic No. 66 "On Basic Principles of State Investment Policy" (2003), which provides additional guarantees to asset owners, as well as several regulations governing corporate law. These initiatives are aimed at protecting the interests of both domestic and foreign entrepreneurs, especially in the real estate and construction sectors, which are substantial in the Kyrgyz economy.
In addition, Kyrgyzstan is simplifying the business registration process and reducing bureaucratic procedures. One of the main tools for this was the introduction of the SWS (World Customs Organisation 2024), which should facilitate access to government services for investors. This mechanism allows foreign companies as well as local entrepreneurs to register their businesses and obtain the necessary licences and permits through a single portal. The introduction of this system is aimed at reducing the time and costs associated with starting a business in Kyrgyzstan. However, the system is not yet fully operational, especially in regions where technical and infrastructural barriers

are slowing down its implementation. The Kyrgyz authorities are actively working to integrate the SWS into regional centres to create a more uniform environment for investors across the country (Nurgaliyeva et al., 2024).

All these efforts by Kyrgyzstan reflect the national intention to adapt its legislation to the requirements of the global market and improve its attractiveness to foreign investors. The adoption of bilateral investment protection agreements, strengthening of property rights protection, and simplification of administrative procedures show that the government is committed to creating a more transparent and predictable business environment (Franchuk et al., 2024; Kadakure & Twum-Darko, 2024). These measures are particularly important for a country where investment stability and asset protection remain key factors for economic growth, especially in competition with other Central Asian states also interested in attracting international capital. Nevertheless, several barriers continue to reduce the overall effectiveness of these efforts. First, despite the introduction of various legal incentives, the bureaucratic system remains complex and prone to corruption, creating additional costs and delays for investors. Numerous administrative checks, long processing times, and unreasonable delays in issuing permits continue to hamper project implementation. According to the World Bank Group's (2020) Ease of Doing Business Index report, Kyrgyzstan faces challenges in areas such as contract enforcement, property registration, and minority investor protection. These difficulties may significantly reduce the country's attractiveness to major international players who rely on quick and easy interaction with government agencies.

Kyrgyzstan's judicial system also remains an area of increased risk for investors. Although steps have been taken to improve the legal protection of investors, problems related to the independence of the judiciary, its exposure to external pressure, and corruption factors have not yet been fully addressed. Court proceedings relating to commercial disputes can drag on for months, which increases operational risks and adversely affects business activity. In addition, the lack of qualified professionals and resources in the legal system results in limited competence in resolving complex commercial and investment cases, which creates additional uncertainties for foreign companies.

Poland, through its membership in the EU, has significant advantages for attracting foreign investors, including access to a wide network of agreements and legal mechanisms that protect investments and ensure a favourable business climate. Poland automatically grants investors from countries of the EU protection under European law, including the rights to free movement of capital, protection against discrimination, and equal business conditions. This means that companies from countries of the EU can invest in Poland with guarantees of transparent and predictable regulation, which include compliance with antitrust laws, protection of intellectual property, and tax preferences approved at the level of the EU. For investors from outside the EU, Poland has also concluded more than 60 BITs with countries such as the USA, China, and Japan, which reinforces its position as one of the most secure and open markets in Eastern Europe (UN Trade and Development Investment Policy Hub 2024b). In contrast to Kyrgyzstan, Poland has a more developed system of legal instruments that provide foreign investors with the opportunity to resolve disputes through international arbitration courts. For example, Polish BITs provide investors with access to the International Centre for Settlement of Investment Disputes (ICSID) and the Stockholm Chamber of Commerce (SCC) Arbitration Institute, which is an important factor for large international companies seeking to invest in the country. In terms of property rights protection, Poland also has a more stable legal system, which implements modern European norms for the protection of intellectual property and real estate rights. For example, in 2023, Poland rose to 31st place in the Property Rights Protection Index, which reflects the stability and reliability of the country's legal mechanisms in property protection (Global Economy 2023).

Polish legislation is constantly being updated to meet new requirements of the EU, allowing investors to operate in a predictable legal environment. These changes generally relate to strengthening intellectual property rights, reducing barriers to doing business, and improving corporate regulation. Thanks to access to the structural funds of the EU, Poland was able to allocate significant funds to support legal reforms, modernise the judicial system, and implement modern digital solutions. For example, between 2014 and 2020, Poland received around EUR 82.5 billion in European Structural and Investment Funds (ESIF) (European Commission 2016), and part of these funds were allocated to reforms that simplify the business registration process and reduce bureaucracy. Poland has also implemented SWS, which is fully integrated and allows entrepreneurs to register companies online and use the services of government departments remotely. This significantly reduces administrative costs as investors can obtain all necessary documents and register a business electronically, which speeds up the process. In addition, as part of the reforms, Poland actively supports the introduction of digital technologies in the judicial system, including electronic application procedures and remote court proceedings, which increases the transparency of processes and reduces the risks of delays.

An analysis of tax and legal policies shows that Poland and Kyrgyzstan's approaches to attracting foreign capital differ significantly. In Kyrgyzstan, tax incentives are focused on supporting basic sectors such as agriculture and light industry. For example, with SEZ, investors benefit from reduced income tax, VAT exemption, and property tax relief. These measures attract companies focused on traditional industries and help support local economies, especially in agricultural regions. Additionally, the small business tax holiday programme introduced in 2020 temporarily exempted businesses from corporate income tax, which helped reduce start-up costs but is limited in scope and mainly affects local small businesses.

Poland, by contrast, has a more flexible tax system targeting a wide range of industries. Along with traditional benefits, Polish economic zones provide incentives for high-tech and innovative industries such as IT, research, and development. Moreover, tax incentives and support through EU structural funds allow Poland to actively attract FDI in research and infrastructure development, which increases the country's attractiveness for highly qualified specialists and technology companies. Poland has become an attractive market for the EU and the USA, which has significantly increased the inflow of foreign investment and helped to strengthen international relations in the industrial sector.

A key factor in Poland's success is its ability to adapt tax and legal incentives to meet current market demands and to support strategic industries through EU programmes. Access to European structural funds and programmes provides Poland with financial support for the development of priority sectors, which helps the country maintain high standards of competitiveness and stability. Nevertheless, Poland faces challenges related to the high level of competition in the EU market and the need to regularly modernise incentives to maintain its attractiveness to foreign investors.

For Kyrgyzstan, the main challenge remains limited budgetary resources, which reduce the flexibility of tax incentives and hinder innovation. Lack of access to EU programmes and an underdeveloped legal infrastructure also result in lower investment inflows. Nevertheless, thanks to support for the basic sectors, Kyrgyzstan remains attractive to businesses focused on agriculture and light industry, which gives the country's economy a certain degree of resilience and ensures the gradual development of the regions. Improvements in the legal framework and increased access to financial support from international organisations could increase interest in longer-term investments and increase overall foreign capital inflows.

Addressing the identified factors, several conclusions can be drawn, and recommendations can be made to improve the effectiveness of existing incentives. Kyrgyzstan, which has great potential for development, should focus on expanding tax incentives aimed at attracting investment in high-tech sectors. The development of such industries as information technology, scientific research, and innovative start-ups is noteworthy. The introduction of programmes like Polish tax incentives for innovative projects could be a key step in diversifying

the national economy. These measures could not only attract capital to new promising industries but also stimulate job creation, improve the skills of the workforce, and introduce advanced technologies. Improving administrative procedures is also an important task for Kyrgyzstan. Simplifying the business environment, introducing digitalisation of public services, and creating a SWS can significantly increase the country's attractiveness to foreign investors. Such measures will reduce the costs of the initial stages of investment projects, speed up business registration processes, and reduce administrative barriers. This is relevant for small and medium-sized businesses, which are central to economic development. In the long term, these steps could strengthen Kyrgyzstan's position in the global investment market.
Table 3 summarises the key types of tax incentives and legal protections in Kyrgyzstan and Poland, alongside their observed impacts on FDI, job creation, and economic growth.

**Table 3:** Comparison of tax incentives and legal protections in Kyrgyzstan and Poland

| Aspect | Kyrgyzstan | Poland |
|---|---|---|
| Tax Incentives | Tax rebates, preferential tax rates, tax holidays, special economic zones (SEZs), and a focus on the agriculture and light industry sectors. | Preferential tax rates, tax holidays, SEZs, focus on high-tech and innovative industries, and access to EU funding. |
| Legal Protections | Bilateral investment treaties (BITs), property rights protection, simplified registration procedures, introduction of the Single Window System (SWS). | Bilateral investment treaties (BITs), strong property rights protection, access to EU legal frameworks, and simplified business registration through SWS. |
| Impact on FDI | Moderate FDI growth due to legal instability and high risks; targeted at small businesses and basic industries. | Steady increase in FDI, especially from the EU and the USA, due to a stable legal environment and high-tech industry focus. |
| Impact on Job Creation | Focus on infrastructure and agriculture, moderate job creation; emphasis on small and medium-sized enterprises (SMEs). | High job creation in innovative and high-tech sectors; strong growth in manufacturing, IT, and infrastructure, supported by EU funding. |
| Impact on Economic Growth | Focus on diversifying the economy, but limited by administrative inefficiencies and a narrow range of tax incentives. | Strong economic growth driven by investment in diverse sectors, with significant support from EU funds and tax incentives aimed at high-tech sectors. |

Source: compiled by the authors.

Despite its success in attracting foreign investment, Poland also faces several challenges. One of the key tasks is to strengthen support programmes in less developed regions of the country. This will help to equalise the level of economic development between regions, reduce social and economic disparities, and create additional jobs in lagging regions. Such measures will help to raise living standards, improve social sustainability, and reduce migration flows from less developed regions to large cities. Another promising strategy for Poland is to expand support for entrepreneurship, especially in the green technology sector. The development of companies operating in this area will not only help to attract foreign investment but also to achieve sustainable development goals. This could include tax incentives for companies involved in renewable energy, waste management, and environmentally friendly technologies. Such initiatives will strengthen Poland's position as a leader in sustainable development in the Eastern European region.
For both countries, a critical strategy is to deepen integration into international investment protection networks and arbitration mechanisms. Kyrgyzstan should consider participating in multilateral investment protection agreements, such as the ICSID Convention. This would increase the level of transparency, legal predictability, and protection for international investors, which is particularly important for countries in transition. Poland, in turn, can strengthen its existing international relations by expanding cooperation with new investment partners and improving dispute-resolution mechanisms. This will allow it to maintain its high reputation as a reliable partner in the international arena.
Further research should address the long-term effects of tax and legal incentives on economic growth and sustainable development. Analysing the effectiveness of such measures will allow for a deeper understanding of their impact on the transformation of economies and the improvement of countries' competitiveness in the global market. A promising area of research could be the study of similar incentives in transition economies. This will identify successful models of attracting foreign capital and develop universal approaches to optimising incentives. Lastly, such research could form the basis for a balanced investment policy that promotes sustainable economic growth and strengthens the position of countries in international economic systems.

## 4. Discussion

The results of this study demonstrate the importance of tax and legal incentives for attracting foreign capital, as well as their impact on the economic development of countries. Tax incentives, such as tax holidays, reduced tax rates, and special economic zones, are important tools that help create a favourable business climate for foreign investors. These measures reduce companies' costs, encourage their expansion, and increase their international competitiveness. Legal incentives, in turn, provide the necessary legal stability, including protection of property rights, transparency of procedures for investors, and guarantees following international agreements.
Studies by Kiptoo (2024), Cuervo-Cazurra et al. (2022), and Nyeadi et al. (2024) show that tax incentives are key to attracting foreign capital to emerging market economies that seek to diversify their economies. This is confirmed in this study, noting that reduced tax rates for foreign investors and special economic zones contribute to the growth of FDI, which creates new jobs and increases government revenues. Poland, for example, has significantly increased investment in high-tech industries over the past decade thanks to the introduction of such measures.
Studies by Sharma et al. (2024) and Khoshimov (2024) highlight the role of legal incentives, such as international investment protection agreements, in increasing investor confidence in a country's economic conditions. This study points out that legal mechanisms aimed at dispute resolution, property rights, and regulatory transparency play a key role in creating a favourable investment climate. Effective dispute resolution mechanisms, such as arbitration courts or specialised investment tribunals, can minimise the financial and time costs of conflict resolution, which is particularly important for large foreign investors. The protection of property rights, including clear legislation and its effective enforcement, reduces uncertainty and builds business confidence, especially in countries with historically high legal risks (Rexhepi, 2023). In addition, a transparent regulatory policy that provides clear licensing, taxation, and administrative control procedures helps to reduce administrative barriers and increase the predictability of the business environment.
Based on the analysis of incentives in Poland and Kyrgyzstan, several key aspects can be identified. Poland, being a part of the EU, actively uses the support of the European Union to create a favourable investment climate. Tax incentives for foreign companies, within the framework of special economic zones, have helped to attract significant amounts of FDI in the manufacturing sector and infrastructure projects. Kyrgyzstan, by contrast, faces significant challenges due to limited domestic resources and a challenging geopolitical environment.

However, the introduction of tax holidays and the creation of conditions to simplify investment procedures have demonstrated some success in attracting capital to the extractive industries. Bazley et al. (2022) and Bredemeier et al. (2023) determined that the effectiveness of incentives depends on the ability of states to ensure a comprehensive approach covering both tax and legal aspects. In the case of Poland, this is manifested in high legal stability and guarantees that provide investors with predictability and confidence. Kyrgyzstan needs to improve its legal mechanisms to protect property rights, which will reduce risks for business.

The results of the study confirm that the use of tax and legal incentives is effective in attracting foreign capital. Poland demonstrates an example of how integration into international structures and rational use of incentives can contribute to sustainable economic development. In turn, Kyrgyzstan can improve its investment attractiveness by improving the regulatory environment. As evidenced by Collins (2023) and Arsal et al. (2023), countries that create conditions for investment through a combination of tax and legal incentives ensure not only economic growth but also increased competitiveness on the global stage.

The results of this study are consistent with the findings of other scholars who have studied the issue of economic incentives for attracting foreign capital. For instance, Christians (2022) and Martin & Otto (2024) emphasise that tax incentives have a significant impact on multinational companies' investment decisions. Their research shows that reduced tax rates can increase the likelihood of choosing a particular country as a base for investment by 20-30%, especially in high-tech industries. This data is consistent with the findings of this study, where tax incentives in Poland have become a key factor in attracting capital to the innovation sector.

Dzhailova et al. (2023) and Łukaniszyn-Domaszewska et al. (2023) also confirm the importance of creating special economic zones to stimulate investment. Their research, focused on Southeast Asian countries, shows that special zones with a simplified tax regime attract not only large multinationals but also medium-sized companies specialising in manufacturing and logistics. The current results confirm this trend: special economic zones in Poland significantly contribute to the attraction of investors to the manufacturing and transport sectors.

Paramita & Ditta (2024) highlighted that the effectiveness of legal incentives directly depends on the quality of institutions and the stability of the regulatory environment. The findings show that even the most attractive tax incentives can be ineffective without appropriate legal safeguards. This study of Kyrgyzstan confirms these findings: the lack of transparency in the legal system, frequent changes in legislation, and insufficient protection of property rights create significant barriers to attracting foreign capital. Key problems include poor enforcement of investment agreements, difficulty in resolving disputes between investors and government agencies, and the risk of nationalisation or confiscation of assets. In addition, the lack of effective anti-corruption mechanisms worsens the investment climate. As a result, investors are choosing more stable jurisdictions with a predictable regulatory environment and a high level of legal protection.

The conclusions of this study are consistent with the works of Mercurio (2023) and Ostřanský & Pérez Aznar (2023) in the context of analysing the impact of international investment agreements. The authors noted that the signing of such agreements not only significantly reduces risks for investors but also creates favourable conditions for long-term investment. These agreements usually protect investors' rights, establish transparent dispute resolution mechanisms, and guarantee protection against unlawful expropriation. Poland, which is actively entering into investment treaties as part of its EU membership, is an example of effective integration into the global economy. Its participation in multilateral agreements and the creation of a favourable regulatory environment increase investor confidence and contribute to the growth of FDI flows. In contrast, Kyrgyzstan, which has a much smaller portfolio of investment agreements, faces challenges in attracting foreign capital. The absence of many international agreements, as well as limited participation in global and regional economic associations, creates obstacles to building investor confidence (Khilukha, 2023). This situation is further complicated by the lack of clear mechanisms for resolving investment disputes and the lack of transparency in legal regulation.

Jud (2023) and Wilkinson (2024) confirmed the importance of a comprehensive approach to investment promotion. They note that the simultaneous use of tax, legal, and administrative incentives creates a synergistic effect that can significantly increase the investment attractiveness of a country. This study supports these conclusions, demonstrating that Poland's successful experience is based on this approach, while Kyrgyzstan needs to strengthen coordination between tax and legal policies to achieve similar results.

The study confirms that the effectiveness of tax and legal incentives depends on a comprehensive approach that includes favourable tax policy, legal stability, and developed infrastructure. The analysis shows that the combination of tax incentives with legal protection, transparency of the regulatory environment, and international investment agreements is the key to attracting foreign capital and long-term economic development.

While this study primarily focuses on Kyrgyzstan and Poland, the findings can be applied to other regions and countries facing similar challenges in attracting foreign investment. The comparative analysis highlights the importance of combining tax and legal incentives to create a conducive environment for FDI, which is crucial for countries in transition or emerging economies. For example, countries in Central Asia and Eastern Europe, like Tajikistan, Uzbekistan, or Romania, could benefit from adopting similar policies to those analysed in this study. By tailoring tax incentives to specific sectors such as agriculture, mining, or technology, and ensuring robust legal frameworks, these countries could enhance their competitiveness on the global stage and mitigate risks that may deter foreign investors. Furthermore, nations outside Europe could use this analysis to understand how international trade agreements and investment treaties can help safeguard foreign investments, thus fostering long-term economic stability and growth.

## 5. Conclusion

The results of the comparative analysis of tax and legal incentives in Kyrgyzstan and Poland demonstrate significant differences in approaches to attracting foreign capital and their impact on economic development. These differences are due not only to the economic level of the countries but also to strategic priorities, historical context, and integration into international economic networks.

With a more flexible and comprehensive system of incentives, Poland has successfully created favourable conditions for active capital inflows, especially in high-tech and innovative sectors such as research, development, and industrial production. The use of opportunities offered by membership in the European Union has been a key factor in the development of the Polish economy. The EU's Structural Funds and financial programmes play an important role in modernising infrastructure, supporting priority sectors, and stimulating regional development. Poland also demonstrates a high level of integration of its legal infrastructure. Bilateral investment protection agreements, international arbitration mechanisms, and improved protection of property rights create a high degree of confidence among foreign investors. These elements help to reduce legal and administrative risks, which is beneficial for long-term investments.

Contrary to Poland, Kyrgyzstan prioritises support of basic sectors such as agriculture and light industry. The main tax incentives in the country include tax cuts within SEZs and tax holidays for small businesses. These measures create a supportive effect for new businesses and entrepreneurs, especially in capital-intensive industries. However, the lack of access to international financial programmes, the limited legal framework, and the complexity of administrative procedures reduce the overall investment attractiveness of Kyrgyzstan, especially for high-tech and long-term projects. Kyrgyzstan's SEZs offer investors several advantages, such as reduced income taxes, VAT exemptions, and property tax benefits. These zones are aimed at developing priority industries and creating new jobs. However, their effectiveness is limited by insufficient infrastructure development, low levels of technological innovation, and a narrow focus on traditional industries. One of the key problems in Kyrgyzstan is the lack of a systematic approach to protecting the rights of foreign investors. Although the country is taking steps to improve administrative procedures, such as the introduction of SWS, the effectiveness of these initiatives remains low. The complexity of business registration, lack of transparency, and weak protection of property rights create significant barriers for foreign companies. As a result, Kyrgyzstan faces difficulties in attracting sustainable investment, especially from high-tech sectors.

A comparative analysis shows that the effectiveness of capital attraction policies in both countries depends on several factors. Poland has managed to create a developed system of legal protection for investors, which allows it to compete successfully in the international arena for FDI. Its comprehensive approach to attracting investors, including tax incentives, EU programmes, and legal guarantees, contributes to economic competitiveness and sustainability.

One of the main limitations of this study was the limited availability and quality of data. In Kyrgyzstan, statistical and economic data, especially those available in the public domain, may be less extensive and detailed than in Poland. This makes it difficult to make full and accurate comparisons, especially when it comes to the long-term impact of the incentives and their influence on macroeconomic variables. In addition, an important factor affecting the results of the study was the difficulty in assessing the subjective perception of investors. The investment climate of a country depends not only on the formal tax and legal environment but also on the perception of foreign investors, their trust in the legal system, and the perception of economic stability.

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