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THE ROLE OF FOREIGN INVESTMENT IN UZBEKISTAN'S ECONOMIC DEVELOPMENT

Ismailova Fotima Shukhratovna

2 nd year Student, Academic Lyceum of Westminster

International University in Tashkent

Abstract

This article examines the role of foreign investment in Uzbekistan's economic development, with particular attention to capital formation, industrial modernization, employment, productivity, export capacity, and structural transformation. The study combines a review of contemporary investment theory with descriptive analysis of official Uzbek statistics and recent assessments by the World Bank, OECD, and UNCTAD. The findings indicate that foreign investment has become a major source of fixed-capital financing in Uzbekistan, especially since the acceleration of market-oriented reforms after 2017. In 2025, foreign investments and loans accounted for 71.9 percent of total investment in fixed assets, compared with 56.7 percent in 2023. At the same time, the developmental impact of foreign capital depends on its sectoral composition, local supplier linkages, technology transfer, workforce skills, regulatory predictability, and competition. The article argues that Uzbekistan's next policy challenge is not simply to attract larger investment volumes, but to improve the quality, diversification, and domestic spillovers of foreign investment. Practical recommendations are proposed for strengthening investment governance, supporting local firms, encouraging export-oriented and green projects, and improving investor aftercare.



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Keywords: foreign investment, foreign direct investment, economic development, Uzbekistan, fixed capital, productivity, technology transfer, investment climate, structural transformation

INTRODUCTION

Foreign investment is one of the most important channels through which developing and transition economies can supplement domestic savings, accelerate capital formation, obtain modern technology, and connect local firms to international production networks. Unlike short-term portfolio flows, foreign direct investment (FDI) normally combines financial capital with managerial expertise, technology, market access, and long-term participation in the host economy. For Uzbekistan, these functions are particularly important because the country is simultaneously modernizing infrastructure, expanding manufacturing capacity, reforming state-owned enterprises, increasing private-sector participation, and integrating more deeply into global markets.

Uzbekistan's investment environment has changed significantly since the reform acceleration that began in 2017. Foreign-exchange liberalization, improvements in public administration, new investment legislation, public-private partnership mechanisms, special economic zones, privatization initiatives, and the expansion of e-government services have reduced a number of barriers that previously constrained private and foreign investment. The OECD notes that FDI has grown steadily in response to liberalization, although it remains concentrated in capital-intensive sectors such as energy. This concentration creates both an opportunity and a policy challenge: large projects can rapidly expand productive capacity, but their contribution to broad-based development depends on how effectively they generate local linkages, skills, and innovation [1].



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The relevance of the topic is reinforced by the increasing importance of foreign resources in Uzbekistan's investment structure. Official statistics show that foreign investments and loans financed 56.7 percent of investment in fixed assets in 2023, 69.4 percent in 2024, and 71.9 percent in 2025 [2]. These figures demonstrate that external capital has become a central component of the country's development financing model. At the same time, high dependence on foreign financing requires careful attention to debt sustainability, project quality, foreign-exchange exposure, domestic value creation, and the distribution of investment across sectors and regions.

The purpose of this study is to evaluate the channels through which foreign investment contributes to Uzbekistan's economic development and to identify the conditions under which its positive effects can be maximized. The article focuses on five mechanisms: capital accumulation, productivity and technology transfer, employment and human capital, export diversification, and institutional modernization. It also discusses risks and proposes policy priorities for the next stage of investment reform.

LITERATURE REVIEW

The theoretical literature offers several explanations for the developmental role of FDI. The neoclassical approach views foreign capital as a supplement to domestic savings that raises the capital stock and supports higher output. Endogenous-growth models extend this logic by emphasizing technological diffusion, learning-by-doing, human capital, and knowledge spillovers. In these frameworks, the long-run effect of FDI depends less on the initial capital inflow itself and more on whether foreign firms introduce technologies and organizational practices that domestic firms can absorb [3].



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Dunning's eclectic or OLI paradigm explains FDI through ownership, location, and internalization advantages. For a host country such as Uzbekistan, the location dimension is particularly relevant. Market size, resource availability, labor costs, logistics, political stability, investment protection, tax administration, infrastructure, and access to neighboring markets influence investment decisions. However, a favorable location alone does not guarantee large development benefits. The host economy must possess sufficient absorptive capacity, including skilled workers, competitive suppliers, financial institutions, and predictable regulation [4].

Empirical research also warns against treating all foreign investment as equally beneficial. FDI can increase productivity and wages, but positive spillovers may be limited when foreign firms operate as isolated enclaves, rely heavily on imported inputs, or concentrate in extractive industries. The OECD's assessment of Uzbekistan reaches a similar conclusion: foreign firms tend to display higher productivity, wages, and innovation, yet spillovers to domestic firms are constrained by informality, regulatory uncertainty, and limited capabilities among small and medium-sized enterprises [1]. Thus, policy should focus on FDI quality, not only quantity.

Recent global conditions make this distinction even more important. UNCTAD reported that underlying global FDI fell in 2024 and that the international investment outlook remained uncertain because of trade tensions, geopolitical fragmentation, and weak project activity [5]. In a more competitive global environment, countries need to offer not only incentives but also credible institutions, skilled labor, infrastructure, and a clear development strategy.



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RESEARCH METHODOLOGY

The study uses a qualitative-descriptive methodology. First, it reviews major theoretical approaches to FDI and economic development. Second, it analyzes official statistical indicators on foreign investment and fixed-capital formation in Uzbekistan for 2023-2025. Third, it compares these indicators with recent institutional assessments by the World Bank, OECD, and UNCTAD. The analysis is designed to identify economic channels and policy implications rather than estimate a causal econometric coefficient.

The main indicators used are the volume of foreign investments and loans in fixed assets, their share in total fixed-capital investment, GDP growth, and the general direction of sectoral investment. The study also applies an institutional framework in which the developmental effect of foreign investment is evaluated through five dimensions: additional capital, productivity, employment, exports, and domestic linkages.

RESULTS AND DISCUSSION

Official data confirm a rapid increase in the role of foreign financing in Uzbekistan's capital formation. The volume of foreign investments and loans in fixed assets rose from 201.7 trillion soums in 2023 to 351.8 trillion soums in 2024 and 433.9 trillion soums in 2025. Their share in total investment increased by more than fifteen percentage points in only two years, reaching 71.9 percent in 2025 [2].



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Year	Foreign investments and loans, trillion UZS	Share of total fixed-asset investment, %
2023	201.7	56.7
2024	351.8	69.4
2025	433.9	71.9

Source: National Statistics Committee of the Republic of Uzbekistan, SIAT investment indicators [2].

The first contribution of foreign investment is capital accumulation. Large infrastructure, energy, transport, manufacturing, and telecommunications projects require financing volumes that may exceed the capacity of domestic firms and banks. Foreign capital helps narrow this financing gap and can accelerate modernization. The World Bank reported that Uzbekistan's real GDP expanded by 7.7 percent in 2025, while investment increased by 10.5 percent, showing the continuing importance of capital formation in the country's growth model [6].

The second channel is productivity and technology transfer. FDI can introduce advanced machinery, quality-control systems, digital management platforms, international accounting standards, and modern supply-chain practices. These gains become more valuable when workers move between foreign and domestic firms, local suppliers adopt higher standards, and joint ventures create learning opportunities. Uzbekistan therefore needs policies that encourage supplier development and technical cooperation rather than relying only on tax incentives. The third channel is employment and human-capital development. Foreign firms can create direct jobs, but the quality of employment matters as much as the number of jobs. Projects that require engineering, information technology,



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financial analysis, logistics, marketing, and quality assurance contribute more strongly to skill formation than projects with limited domestic labor content. Investment agreements and aftercare programs can encourage training, internships, cooperation with universities, and certification of local specialists. The fourth channel is export diversification and global value-chain integration. Foreign investors often possess established distribution networks and knowledge of international standards. If Uzbekistan attracts export-oriented investment in manufacturing, agribusiness, pharmaceuticals, electrical equipment, textiles with higher value added, digital services, and green technologies, FDI can reduce dependence on a narrow set of commodity exports. Export-oriented projects also create stronger incentives for productivity improvement because firms must meet global quality and cost benchmarks.

The fifth channel is institutional modernization. International investors demand contract enforcement, transparent customs procedures, predictable taxation, reliable infrastructure, and efficient financial services. Reforms introduced to improve the investment climate can therefore benefit domestic entrepreneurs as well. However, policy should avoid excessive project-by-project privileges, because discretionary incentives can distort competition and reduce transparency. The OECD recommends clearer investment rules, greater regulatory consistency, and a more transparent framework for restrictions and incentives [1].

Several risks must also be recognized. Heavy concentration of FDI in energy and resource-intensive activities can limit diversification. Large foreign-funded projects may increase import demand and external financing obligations. Profit repatriation can put pressure on the balance of payments if export revenues do not grow correspondingly. Moreover, if local firms are unable to meet quality and volume requirements, foreign projects may import most intermediate inputs, reducing domestic spillovers. These risks do not imply that foreign investment



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should be restricted; rather, they show why investment policy must be integrated with industrial, education, competition, export, and SME policies.

A useful policy principle is to move from an 'investment attraction' model to an 'investment development' model. Under the first model, success is measured mainly by announced project value. Under the second, projects are assessed by realized capital expenditure, jobs, productivity, exports, local procurement, technology transfer, environmental performance, and regional development. This approach would make investment policy more closely aligned with Uzbekistan's long-term development objectives.

CONCLUSION AND RECOMMENDATIONS

Foreign investment has become a major driver of Uzbekistan's economic modernization and capital formation. The sharp rise in the share of foreign investment and loans in fixed-capital formation demonstrates the country's increasing integration into international capital flows. At the same time, the long-term contribution of foreign capital depends on the quality and structure of investment rather than on aggregate volumes alone.

To maximize developmental effects, Uzbekistan should prioritize five directions. First, investment rules and incentives should become more transparent, stable, and rules-based. Second, FDI attraction should increasingly target export-oriented manufacturing, green energy, digital industries, logistics, agribusiness, and other sectors with strong productivity spillovers. Third, local supplier-development programs should help SMEs meet the standards of foreign investors. Fourth, investor aftercare should focus on reinvestment, workforce training, innovation, and regional linkages. Fifth, public evaluation of major investment projects should include indicators for realized investment, employment quality,



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export generation, local procurement, technology transfer, and environmental impact.

The central policy conclusion is that foreign investment should be treated not merely as a source of financing but as an instrument of structural transformation. When supported by effective institutions, competition, skills, and domestic business capabilities, foreign capital can help Uzbekistan achieve faster, more diversified, and more sustainable economic development.

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