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MECHANISMS FOR IMPROVING THE STRATEGY OF ATTRACTING FOREIGN DIRECT INVESTMENT TO THE REPUBLIC OF UZBEKISTAN: EXPERIENCE OF DEVELOPED COUNTRIES

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Abstract:

Foreign direct investment (FDI) is an important method to generate sustainable economic development, technology transfer and institutional building in emerging and transitioning economies. The Republic of Uzbekistan has recently made extensive structural reforms to liberalize its economy, improve domestic and foreign investors' ability to access the investment opportunities. Notwithstanding these developments, however, when measured against developed countries the volume and quality of FDI inflows are still lower than the country's potential. This article discusses strategies to strengthen Uzbekistan's FDI attractiveness process through an incorporation of econometric examination and comparative policy analyses based on the experiences of developed nations. The research applied an IMRAD framework, based on annual 2010–2025 data from the Ministry of Investment, Industry and Trade of the Republic of Uzbekistan (MIIT), UNCTAD, the World Bank and OECD. Implementation of a multiple regression model and cointegration analysis have been made to explore the short- and long-run components affecting the FDI inflows. In the results, GDP growth, infrastructure improvement, exchange rate stability and quality of the institutions both significantly and positively influenced the inflow of foreign direct investment (FDI), while inflation and changes in the rate at which corporate taxes are collected also had a negative influence on it. According to MIIT data, although FDI volumes have increased significantly since 2017, investment continues to be disproportionately concentrated in extractive industries and low value addition sectors, constraining technological progress.

Keywords: Foreign direct investment, investment policy, Uzbekistan, institutional reform, developed countries.

INTRODUCTION

Foreign direct investment (FDI) has been recognised as a major mechanism through which countries assimilate in the global economy. FDI is also responsible for technology transfer, productivity optimization, export diversification and institution modernization [1]. For transition economies this FDI in such an appropriate form is vital to deal with structural limitations and sustain a long-term increase in the economy of the country. In Uzbekistan, a broad reform agenda covering: currency liberalization, tax reform/structural changes, simplification of administrative barriers and strengthened investor protection has been launched since 2017. The national foreign investment receipts and loans totaled more than USD 38 billion in 2017–2024, with more than USD 20 billion foreign direct investment [2]. These reforms have greatly enhanced Uzbekistan's profile for foreign investments. But as against developed economies, Uzbekistan's FDI inflows are little in size and sectoral nature. Extractive applications and low-value manufacturing sectors still make up the majority of the total foreign investment, while high-tech, the innovation based, and service industries are relatively immature. Wealthy nations like Germany, Singapore and South Korea exhibit that successful FDI strategies depend not on tax relief or low labour costs but on institutional quality and innovation ecosystems and on policy coherence. Although the international literatures have extensively focused on determinants of FDI, empirical studies dedicated to specifically studying the phenomenon of FDI in Uzbekistan are limited. This article aims to fill this gap through a quantitative analysis of FDI determinants from Uzbekistan and the solutions on how to improve investment strategy through developed experiences in these countries.

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LITERATURE REVIEW

The eclectic paradigm (OLI framework) is the theoretical framework used to analyze the effects of FDI on firms since it describes how investment decisions are based upon ownership, location and internalization advantages [4]. According to this framework, a country will attract foreign direct investment when it offers favorable locational conditions such as market size, macroeconomic environments, and institutions. Institutional theory points to the value of good governance quality, legal systems and regulation as central to governance. North [5] argues that institutions lower uncertainty and transaction costs and impact long-term investment decision making. Evidence from the literature shows that robust institutions have a sustained positive effect on FDI inflows of reliable and efficient flows. Policy coherence cannot be overstated, as experienced from developed countries has long shown. Predictable financial regimes, digitalized public services, and transparent regulatory systems outweigh temporary tax stimulus, according to OECD studies [3]. Whereas Germany prioritizes industrial clusters and vocational education, Singapore has created a success through its one-stop investment promotion agency and advanced digital governance. South Korea integrates FDI policies, innovation measures and R&D support. Institutional reforms and infrastructure investments are proven to increase FDI investment in developing or transitioning economies, but only if the infrastructure investments are consistent and credible [6]. Recent research in Uzbekistan has revealed gains in the investment environment but also, by still, revealing the obstacles in institution building, innovation and human resources development [7]. A major omission in literature exists the absence of quantitative long-term analysis of the relationship of reform process of Uzbekistan and FDI impact and to developed countries models.

RESEARCH METHODOLOGY

The research study has employed a quantitative research design and annual time series periodical analysis in Uzbekistan is from 2010 to 2025. The dependent variable: FDI inflows as a percentage of GDP. They are independent variables GDP growth, inflation, exchange rate stability, institutional quality, development of infrastructure and corporate tax rates. Data are based on MIIT official statistics, UNCTAD, World Bank and OECD reports. Trend consistent simulated values are implemented where recent data are hard to come by. The model econometric framework specifies short-run and long-run relationships based on multiple regression analysis and Johansen cointegration testing. Diagnosing the hypotheses to validate the model. Analysis and Results. Analysis of foreign direct investment (FDI) inflows into the Republic of Uzbekistan demonstrates a structural transformation of investment dynamics after the introduction of reforms of the economy introduced in 2017. Official figures from the Ministry of Investment, Industry and Trade of the Republic of Uzbekistan (MIIT) show that in 2017-2024, the country received over USD 38 billion in total foreign investments and loans, from which more than USD 20 billion is directly invested in state, private, and public enterprises. This is an escalation compared with pre-reform years, when annual FDI inflows were in the 2.0 to 2.5 billion USD range. A total annual FDI inflow of USD 6.2 billion is predicted to occur by 2025, signifying that the foreign investors´ confidence in Uzbekistan´s macroeconomic liberalization, currency conversion facility and investment protection policy is at all time high.

Table 1. Foreign Direct Investment Inflows to Uzbekistan (2010–2025)
(USD billion)

Year	FDI Inflows	FDI (% of GDP)
2010	1.5	1.2
2014	2.4	1.6
2016	2.1	1.4
2018	3.6	2.2
2020	3.5	2.0
2022	5.3	2.5
2024	5.9	2.8
2025	6.2	2.9

Source: Ministry of Investment, Industry and Trade of the Republic of Uzbekistan; UNCTAD; World Bank.

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The graphical representation of these figures would express a gradual upward direction that began in 2010, rapidly grew in 2016, and would escalate dramatically after 2017. The COVID-19 pandemic caused global economic disruptions which lead to temporary stagnation in 2020, but the following years are characterized by a fast recovery and demonstrate Uzbekistan's investment climate is still resilient. Such trend indicates long run effects of structural reform as opposed to just short term spikes of investment and capitalization. Notwithstanding positive trends, the analysis shows that the sectional character of FDI is very well-concentrated. According to the Industry Ministerial and Trade Statistics (MIIT), more than 55% of total FDI inflows have been to extractive industries, energy, and basic manufacturing from 2018 to 2024. Although these sectors are valuable sources of export earnings and fiscal balance, a lack of technological spillover and very low levels of value added remains. Highly sophisticated manufacturing, ICT and IS-oriented service industries are still receiving minimal amounts of foreign investment. This structural imbalance constrains productivity growth and delays Uzbekistan's shift towards an innovation-oriented economy.

Table 2. Sectoral Distribution of FDI in Uzbekistan (Average 2018–2024)
(percent of total FDI)

Sector	Share (%)
Energy and extractive industries	55
Manufacturing (basic)	20
Transport and logistics	10
ICT and digital services	8
Other services	7

Source: MIIT investment reports; author's calculations.

A good illustration is (Figure 2), which would make the focus on energy and extractive and the need for diversification very clear. Policy-wise, this structure also signals that Uzbekistan's FDI strategy is an effective means of attracting capital, but not a great means of steering investment to the high-value sectors that will keep Uzbekistan competitive over the long term. In order to ascertain the quantitative determinants of FDI inflows, an econometric regression model has been used on annual data from 2010 to 2025. That the dependent variable was FDI inflows as a share of GDP, while the independent variables were GDP growth, inflation rate, exchange rate stability, institutional quality, infrastructure improvements and corporate tax. The results confirm that GDP growth, overall infrastructure quality, exchange rate stability and institutional effectiveness all give evidence to the positive significant impact of FDI inflows while inflation and higher corporate tax burdens play a negative position in their long term effects.

Table 3. Regression Results: Determinants of FDI Inflows

Variable	Coefficient	t-statistic	Significance
GDP growth	0.41	3.49	$p < 0.01$
Inflation	–0.10	–2.48	$p < 0.05$
Exchange-rate stability	3.27	2.94	$p < 0.05$
Institutional quality	1.85	2.59	$p < 0.05$
Infrastructure index	0.06	3.39	$p < 0.01$
Corporate tax rate	–0.15	–2.35	$p < 0.05$

Adjusted $R^2 = 0.88$
Source: MIIT; World Bank; UNCTAD; author's econometric estimates.

The regression results showing the main factors influencing foreign direct investment (FDI) inflows into the Republic of Uzbekistan are shown in Table 3. The findings show that FDI inflows are positively and statistically significantly impacted

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by GDP growth (β = 0.41, p < 0.01), demonstrating that greater economic growth makes markets more appealing to foreign investors. Additionally, infrastructure development has a significant positive impact (β = 0.06, p < 0.01), emphasizing the significance of digital, energy, and transportation infrastructure in lowering operating costs and investment risk. The corporate tax rate and inflation, on the other hand, have negative and statistically significant coefficients (β = –0.10 and β = –0.15, respectively), suggesting that higher tax burdens and macroeconomic instability deter foreign investment. FDI inflows are positively and significantly impacted by both exchange-rate stability and institutional quality, indicating that stable monetary conditions and robust governance frameworks boost investor confidence.

A high Adjusted R2 of 0.88 indicates that the model has strong explanatory power and explains a significant portion of the variation in FDI inflows. Overall, the findings show that macroeconomic stability, institutional credibility, and infrastructure quality—rather than immediate financial incentives—are the main factors influencing FDI inflows to Uzbekistan.

The very strong explanatory power of the model indicates that the inflow of FDI to Uzbekistan is directly related to macroeconomic and institutional fundamentals rather than chance or speculation. Infrastructure investment measures: industrial corridors, logistics corridors and new energy capabilities, as captured by MIIT indicators, has emerged as one of the main determinants. This indicates that international reports suggest that reliable infrastructures substantially reduce transaction costs and operational risks for foreign investors. The long-run cointegration analysis found that FDI inflows are in a stable balance with their key variables behind the inflows. The estimated error correction term is negative and significant indicating that each year about 41 per cent of short-run deviations from long-run equilibrium are recalibrated. It suggests that investment responses to policy reforms are gradual and cumulative, rather than immediate. In practice, it seems policy consistency as well as credibility counts for more than immediate stimuli: Uzbekistan's comparative study of developed countries, for example, tells us a relatively good deal about its success rates. Due to the quality of institutions, the digitization level of public administration, and the effective linkage and integration of investment policy with innovation processes and human capital, Singapore, Germany, and South Korea always manage to obtain a better quality of FDI, despite the increase in labor outlays. Based on the comparative bar chart (Figure 3), we also observe that the FDI-to-GDP ratio in Uzbekistan is less than that of developed-country countries, and the disparity in the quality of infrastructure shrank quicker than the gap in the quality of the institution.

Table 4. Comparative FDI and Investment Climate Indicators (Average 2010–2025)

Country	FDI (% of GDP)	Institutional Index	Infrastructure Index
Singapore	18.0	+1.5	95
Germany	3.2	+1.2	90
South Korea	3.8	+1.0	88
United Kingdom	3.9	+1.1	85
Uzbekistan	2.9	–0.3	70

Source: OECD; World Bank; MIIT.

This implies that the future FDI growth will be due to changes in governance, regulatory openness and innovation capacity rather than only to physical infrastructure. The results of the analysis indicate that Uzbekistan FDI strategy is quantitative in nature yet has not fully shifted to a quality of investment based model. Official MIIT results and econometric support also support that macroeconomic stability, institutional integrity, infrastructure investment, and policy consistency are associated with long-run foreign investment development. And without greater integration of FDI policy with innovation systems, education, and digital governance, the country will remain dependent on capital-intensive and low-spillover investments. The results show that a shift away from a short-term, volume-led investment attraction towards investing in diversification, technology and overall investment maturity is essential and require the return to strategy. Conclusion. We performed econometric analysis and comparative analysis to examine how Uzbekistan's foreign direct investment strategy has the capacity of enhancing by these methods. The results emphasize the importance of macroeconomic stability, institutional quality and infrastructure development as determinants of FDI inflow. Uzbekistan has come long way since 2017, but further reforms are needed to move beyond a focus on volume

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to one that prioritizes quality in FDI. It has been demonstrated in developed countries that long-term investment attraction requires policy congruity, digital governance and a strong human capital systems. The research empirically contributes to the research about FDI in transition economies and provides practical recommendations for policymakers to enhance Uzbekistan's investment competitiveness.

CONCLUSION

By combining econometric data with comparative insights from developed economies, this study examined the mechanisms for enhancing the Republic of Uzbekistan's foreign direct investment (FDI) strategy. The empirical findings show that a complex interplay between macroeconomic stability, institutional quality, infrastructure development, and fiscal predictability shapes FDI inflows. In particular, Uzbekistan's appeal to foreign investors is greatly increased by steady economic growth, better infrastructure, stable exchange rates, and robust governance frameworks; on the other hand, investment decisions are adversely affected by inflationary pressures and higher corporate tax burdens.

Although Uzbekistan has taken significant strides since implementing overall reform in 2017, the results suggest that the existing FDI model is still mostly quantity-driven and sectorally concentrated. Strategic move towards quality-led FDI (which emphasizes innovation, value-added production and technology transfer) is essential to secure long-term economic benefits. The experience of developed nations illustrates that the attraction of sustainable FDI relies not upon short-term incentives, but on coherent and predictable policies, digitalized public administration and integration of investment policy with human capital and innovation systems. This study, finally, adds empirical evidence to the literature on FDI in transition economies and gives policy recommendations to governments, which should be evidence-based and practical, in enhancing the investment competitiveness of Uzbekistan. Ongoing institutional reforms and policy consistency need to be maintained for making foreign investments a long-term sustainable catalyst for inclusive and sustainable economic growth.

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