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FOREIGN DIRECT INVESTMENT IN UZBEKISTAN: ISSUES AND PROSPECTS FOR ATTRACTION

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Abstract

This article analyzes the recent dynamics of foreign direct investment (FDI) in Uzbekistan, highlighting both the challenges and opportunities associated with attracting international capital. Drawing on data from the World Bank, UNCTAD, and official government sources, it examines FDI trends from 2021 to 2024 and compares Uzbekistan's performance with regional peers such as Kazakhstan and Azerbaijan. The study reveals that while FDI inflows to Uzbekistan remained relatively stable in previous years, a significant surge occurred in 2024. Key sectors attracting investment include renewable energy, manufacturing, and infrastructure. However, persistent issues such as weak contract enforcement, regulatory complexity, limited financial markets, and infrastructure bottlenecks continue to hinder investment growth. The article concludes with targeted policy recommendations aimed at improving the investment climate through legal reform, economic diversification, infrastructure development, and enhanced transparency. These measures are essential for ensuring sustained FDI inflows and fostering long-term economic development in Uzbekistan.

Keywords: Uzbekistan; Foreign Direct Investment (FDI); Investment Climate; Economic Reform; Legal Framework; Special Economic Zones (SEZs); Infrastructure; Central Asia; Comparative Analysis; Policy Recommendations.

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Introduction

Foreign direct investment (FDI) is a key driver of economic growth in emerging markets. After a period of isolation under its Soviet legacy, Uzbekistan has launched an ambitious reform agenda since 2017 to attract international capital. Global FDI flows weakened in recent years – falling 2% to $1.3 trillion in 2023, with developing-country inflows down 7% to $867 billion [1] – intensifying competition among emerging economies. Uzbekistan, the most populous Central Asian country (32 million people), has liberalized its currency and opened sectors to foreign investors. Its large domestic market, abundant natural resources (gas, gold, cotton, hydropower potential) and strategic location on the "New Silk Road" are strengths [2]. The government has also established special economic zones (SEZs) with tax incentives to spur investment. Despite these steps, Uzbekistan's FDI profile remains modest: inflows averaged about $2–3 billion per year (2018–23), roughly 15–20% of GDP. This article examines the recent trends in FDI inflows and outflows for Uzbekistan (2021–2024) and compares them with two similar economies (Kazakhstan and Azerbaijan). Using World Bank and UNCTAD data, as well as official reports, we analyze the main obstacles (bureaucracy, legal constraints, infrastructure gaps) and opportunities (sectoral growth, green energy projects, SEZs) affecting FDI, and conclude with policy recommendations for bolstering investment.

Methods

We compiled quantitative data on FDI inflows and outflows from 2021 to 2024 using sources like the World Bank's World Development Indicators and UNCTAD data. Key values were cross-checked with government and international agency reports. Comparisons were drawn to Kazakhstan and Azerbaijan as regional peers; data for these countries were obtained from UNCTAD and other reputable sources. We also reviewed qualitative information from the Uzbek government, IFC and UN reports, and the U.S. State Department's investment climate statements to identify legal and institutional factors. This mixed-methods approach (data analysis and literature review) allows a comprehensive assessment of FDI trends and drivers.

[1] https://unctad.org/
[2] https://www.lloydsbanktrade.com/en

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Results

Uzbekistan's net FDI inflows were roughly $2–2.6 billion in 2021–23. According to UNCTAD, inflows were about $2.28 billion in 2021 and $2.53 billion in 2022[3], dipping slightly to $2.19 billion in 2023 (Figure 1). Strikingly, inflows surged in 2024: the Central Bank of Uzbekistan reported a 53.6% jump to UZS156.8 trillion (≈$11.9 billion)globenewswire.comlloydsbanktrade.com. By contrast, Kazakhstan – a larger economy – saw higher inflows: about $4.57 billion in 2021, $5.08 billion in 2022, and $5.44 billion in 2023macrotrends.net. Azerbaijan's FDI inflows were far more volatile: it suffered net disinvestment in 2021–22 (-$1.71 billion and -$4.47 billion, respectivelylloydsbanktrade.com), but rebounded to a modest +$0.25 billion in 2023lloydsbanktrade.com and surged to ~$7 billion in 2024lloydsbanktrade.com. In sum, Uzbekistan's annual inflows were consistently lower than Kazakhstan's but steadier than Azerbaijan's (Table 1).

Table 1 FDI inflows (net) to Uzbekistan, Kazakhstan, and Azerbaijan, 2021–2024[4].

Year	**Uzbekistan (Net FDI inflow, USD)**	**Kazakhstan (Net FDI inflow, USD)**	**Azerbaijan (Net FDI inflow, USD)**
2021	2,276 million	4,570 million	-1,708 million
2022	2,531 million	5,080 million	-4,474 million
2023	2,187 million	5,440 million	253 million
2024	11,900 million	–	7,000 million

Uzbekistan's outward FDI (investments by Uzbek entities abroad) remains negligible. UNCTAD reports only about $11.7 million of outward FDI from Uzbekistan in 2023[5], far below inflows. By contrast, Kazakhstan and Azerbaijan had substantial outflows (roughly $0.91 billion and $1.88 billion in 2023, respectively).

Overall, Uzbekistan's FDI stock (cumulated FDI) is modest: about $14.8 billion by end-2023 (≈16% of GDP)[6]. Major investor countries in Uzbekistan include China, Russia, South Korea, Kazakhstan, Turkey and Middle Eastern investors. Key sectors

[3] https://www.lloydsbanktrade.com/en
[4] Sources: UNCTlloydsbanktrade.comlloydsbanktrade.com and respective Central Banks.AD
[5] https://unctadstat.unctad.org/EN/Index.html
[6] https://www.lloydsbanktrade.com/en

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attracting FDI have been energy (oil/gas, renewables) and metallurgy. For example, Saudi Arabia's ACWA Power is financing a $2.4 billion, 1.5 GW wind farm in Karakalpakstan, one of the largest in the world. The automotive sector is also emerging: in 2023 China's BYD formed a joint venture with UzAuto to build electric cars (plant opened July 2024). Notably, Uzbekistan became the largest recipient of EBRD loans in Central Asia since 2020, reflecting strong investor interest in various projects[7].

Discussion

Investment Climate and Legal Framework

Uzbekistan's efforts to liberalize its economy have improved the investment climate, but significant barriers remain. The government has enacted several reforms (e.g. freeing the currency, reducing licensing and inspections, anti-corruption laws) and enacted an Investment Law protecting investor rights. In principle, Uzbek law guarantees free transfer of profits and forbids discrimination against foreign investors. The "Law on Investments and Investment Activities" provides formal protections and the government is negotiating new bilateral treaties on investment. However, enforcement is weak. As one source notes, "success in business still depends on support from the government due to weak contract enforcement and dispute resolution mechanisms". Foreign firms often complain about opaque bureaucracy, lengthy permitting, and uneven application of rules.

The government still maintains extensive control in many sectors. State-owned enterprises dominate energy, mining, transport and other "strategic" industries. Even though legal discrimination is prohibited, in practice state ownership and licensing requirements can deter outsiders. For example, the government tightly regulates exports of key commodities (cotton, gold, certain metals) and keeps majority stakes in telecoms and airlines. This state intervention (and an opaque policymaking environment) is widely cited as an obstacle to FDI. Bureaucracy remains burdensome: although unannounced inspections were banned in 2017 and a Business Ombudsman created, many companies report that administrative red tape is still heavy, especially in routine regulatory approvals and land registration. In summary, while new laws

[7] https://www.lloydsbanktrade.com/en

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and agencies signal goodwill, the slow pace of institutional change and lingering state control continue to constrain private investment.

Infrastructure and Connectivity

Uzbekistan is landlocked, so transport and logistics infrastructure are critical. The government has invested heavily in roads, rail links (notably the Kazakhstan–China rail corridor) and energy pipelines, often with Chinese and international financing. These projects enhance Uzbekistan's role as a transit hub between China and Europe. Indeed, investors view Uzbekistan's "strategic position between China and Europe" as an asset. However, gaps remain: some rural roads and rail lines are still underdeveloped, and power outages historically occurred in hot summers. The World Bank notes that Uzbekistan's quality of infrastructure is improving but lags regional levels. Continued investment in high-speed rail, air transport and ports (e.g. a new Uzbekistan–Kazakhstan oil pipeline) is needed. Inadequate infrastructure raises project costs and deters investors, especially in manufacturing and agriculture. In contrast, Kazakhstan's larger economy has comparatively better infrastructure networks, which partly explains its higher FDI stock. Improving transport, telecom and utilities further would make Uzbekistan more competitive.

Economic Challenges and Opportunities

Uzbekistan's economy has low debt and sizable reserves, which is positive for investors. It is also diversified with gas, mining and a growing manufacturing base. Its "strong points" include abundant natural resources (gas, gold, cotton, hydropower) and a large domestic market. These endowments can attract investment in energy, mining and agribusiness. Notably, Uzbekistan is prioritizing renewable energy: the government set targets (e.g. 54% renewables by 2030) and numerous wind/solar deals are underway, offering clear opportunities for green-tech FDI. The Karakalpakstan wind farm is one example; another is expanding solar power plants with foreign partners. The automotive sector shows promise too: beyond BYD-UzAuto EVs, regional markets have demand for assembled vehicles. Information and communications technology is another frontier as the government encourages digitalization (e-government, fintech), evidenced by rising venture capital deals in local fintech firms.

Conversely, challenges include limited financial markets and human capital. The banking sector is underdeveloped, making finance scarce. Investors cite a shortage of skilled managers and engineers for high-tech projects. Another constraint is

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governance: corruption remains a problem (Uzbekistan ranked 100th in Economic Freedom in 2022), and legal uncertainties can deter big international firms. Nonetheless, comparisons suggest Uzbekistan is improving: it has modernized its legal regime faster than, say, some neighbors, but needs to catch up with best practices. For instance, IFC is working with Uzbekistan to draft a new Investment Law that ensures clear entry rules and international arbitration for disputes. This, along with planned reforms to allow private management of SEZ, should expand opportunities.

Special Economic Zones (SEZs) and Small Industrial Zones (SIZs) are key tools. As of 2024, Uzbekistan had 28 SEZs and hundreds of SIZs offering tax holidays and land incentives[8]. These zones have attracted manufacturing and textile projects, but IFC notes that current SEZ rules (often state-managed) deter full private involvement. Streamlining site-selection and environmental assessments (as planned) will boost effectiveness. Another opportunity is regional integration: Uzbekistan's membership in the Eurasian Economic Union (with Russia/Kazakhstan etc.) provides tariff-free market access that can draw export-oriented FDI.

Comparative Outlook

Relative to Kazakhstan, Uzbekistan still has a smaller FDI base. Kazakhstan's inflows (over $5 billion annually) are much higher[9], reflecting its oil wealth and more mature investment regime. However, Kazakhstan's FDI has also slowed (partly due to commodity-price swings). Meanwhile, Azerbaijan's FDI is highly cyclical (dominated by oil projects). Both neighbors face similar challenges (corruption, state ownership) but also have larger, more open energy sectors. Uzbekistan's advantage is political stability and a broad reform consensus from the top. The spike in 2024 FDI ($11.9b) suggests substantial new projects are being approved – though the sustainability of this jump will depend on continued reforms.

Conclusions and Recommendations

To sustainably enhance FDI attraction, Uzbekistan should pursue several policies.

- Legal and Regulatory Reform: Enact the new Investment Law with strong investor protections, clear permitting rules and international arbitration. Further

[8] https://www.ifc.org/en/home
[9] https://macrotrends.net/

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simplify bureaucracy by reducing licensing requirements and digitizing processes (e.g., single-window services) to cut delays. Implement the IFC-recommended changes so that SEZs and special projects allow more private participation and transparent management. Strengthening judicial independence and enforcing contracts will also build investor confidence.

- Economic Diversification and Incentives: Continue moving beyond hydrocarbons by offering targeted incentives in high-potential sectors. For example, tax breaks and co-financing for renewable-energy projects can capitalize on Uzbekistan's climate goals. Support the tech and startup ecosystem with R&D grants and improve vocational education to supply skilled labor. Ensure investment incentives (tax holidays, customs duty exemptions) in SEZs remain competitive but transparent.
- Infrastructure and Logistics: Allocate more public investment or public–private partnerships to upgrade transport and energy infrastructure. Completing major projects (modernizing rail links to China/Europe, expanding airports, and ensuring reliable electricity) will lower operational risks for foreign investors. Expanding broadband and digital infrastructure will attract IT-driven FDI. Coordination with neighboring countries on cross-border transit (pipelines, rail) will enhance Uzbekistan's appeal as a regional hub.
- Governance and Transparency: Combat corruption through stronger oversight of public officials and SOEs, following best practices. Publicize procurement and project approvals openly. Internationally, deepen integration by adhering to investment protection treaties (e.g. bilateral investment treaties, ICSID) to assure investors of recourse in disputes.
- Active Promotion and Aftercare: Use the recently launched National Investment Promotion Agency to aggressively market Uzbekistan abroad and assist investors. Highlight success stories (e.g. the Karakalpak wind farm, automotive JV) and sector-specific opportunities. Provide aftercare services to existing investors to encourage reinvestment.

By combining these measures – building on recent reforms and focusing on transparency and infrastructure – Uzbekistan can improve its FDI inflows and narrow the gap with regional peers. The dramatic rise in 2024's FDI shows potential; sustained policy effort is needed to convert current projects into long-term economic growth and diversification.

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