



STRATEGIC DIRECTIONS FOR INCREASING THE ATTRACTIVENESS OF INVESTMENT PROJECTS AND ATTRACTING FOREIGN CAPITAL IN THE REPUBLIC OF UZBEKISTAN

Shakhlo S. Khaydarova

Master's Student, Faculty of Foreign Economic Activity,
Tashkent State University of Economics

Abstract

This analytical article systematically studies the mechanisms for attracting foreign direct investment (FDI) to the economy of the Republic of Uzbekistan in the context of globalization and international economic integration, the existing investment environment, and the effectiveness of structural reforms. The article provides a detailed analysis of the leading partner countries investing in the national economy, the distribution of capital across sectors and regions, as well as the asymmetric situation of free economic zones in absorbing investments. In order to further increase the investment attractiveness of the republic, practical proposals are put forward to improve the regulatory framework, reduce bureaucratic barriers, digitize infrastructure, and activate the international investment branding and marketing strategy.

Keywords: foreign direct investment, investment projects, free economic zones, investment environment, industry structure, investment marketing, institutional reforms, national brand.

Introduction

In the context of globalization of the modern world economy and integration of international economic relations, international investment flows have become one of the most important factors ensuring stable and rapid growth of national economies. Foreign direct investment (FDI) is not only a source of additional financial resources for developing and transition economies, but also a means of implementing structural modernization, increasing production productivity, and filling the domestic market with competitive products.

One of the strategic priorities of the large-scale economic reforms being implemented in the Republic of Uzbekistan is the creation of a favorable investment climate for



attracting foreign investment. In recent years, significant results have been achieved in ensuring the openness of the national economy, liberalizing the foreign exchange market, radically reforming the tax system, and strengthening legal guarantees for foreign investors. Nevertheless, in the context of global geopolitical changes and fierce competition in the international capital market, the need to conceptually improve the mechanisms for forming investment projects, distributing them proportionally across regions, and minimizing bureaucratic obstacles remains an urgent task.

Theoretical and Methodological Foundations of Attracting Foreign Direct Investment

In economics, there are a number of fundamental theories that underlie the movement of international capital. While representatives of the classical and neoclassical economic schools (including A. Smith, D. Ricardo and J.S. Mill) assessed international capital flows from the perspective of the international division of labor and comparative advantages, later, within the framework of neo-Keynesian and neo-institutionalist approaches, investments began to be characterized not only as the transfer of funds, but also as the transfer of advanced technologies, know-how and modern management systems.

The most widely recognized concept in the theory of international investment is the Eclectic Paradigm or the “OLI-concept” (Ownership, Location, Internalization) developed by John Dunning. According to this theory, a foreign investor's decision to invest in a particular country depends on three groups of advantages: property advantages (technology, brand, patents), location advantages (natural resources, market size, labor costs, institutional stability), and internal integration (internalization) efficiency. Making location advantages more attractive in the conditions of Uzbekistan, that is, bringing the quality of the institutional environment, digital infrastructure, and legal system to international standards, should form the conceptual basis of investment policy.

Current Status of Investment Attraction in the Economy of Uzbekistan and Analysis of Sectors

As a result of measures taken to increase investment activity in our republic, the composition and scope of the investment portfolio are significantly expanding.



According to official statistics, the share of foreign investment and loans in the structure of investments absorbed in the country's economy by source occupies a leading position, accounting for approximately 40 percent of the total volume. The priority direction of state economic policy is aimed at gradually moving away from traditional budget financing and building large production capacities at the expense of private domestic investments (30 percent) and direct foreign capital.

A certain balance is also being formed in the geography of major international investor countries investing capital in our country's economy. The People's Republic of China (23 percent) and the Russian Federation (13.8 percent) are leading in the flow of investments, followed by countries such as Turkey (8.5 percent), Saudi Arabia (7.2 percent), the United Arab Emirates (4.8 percent) and Germany (3.8 percent). This indicates the diversification of investment cooperation. At the same time, when analyzing the distribution of investments by sector, it can be seen that the bulk of investments are directed to traditional industrial and infrastructure facilities. The table below provides a detailed analysis of the volume and shares of investments in economic sectors by the end of 2024.

Table 1 Structural shares of investments in the economy of Uzbekistan

№	Economic sectors and types of activities	Annual investment volume and share (%)
1	Manufacturing (processing) industry	29.3%
2	Other activities and services	17.7%
3	Electricity, gas and steam supply	13.9%
4	Mining and open pit mining	12.9%
5	Residential construction projects	7.7%
6	Agriculture, forestry and fisheries	6.6%
7	General construction and infrastructure	5.5%
8	Health and social services	2.6%
9	Information and Communication Technology (ICT)	2.5%
10	Education and training system	1.3%

Source: Author's work based on data from the Statistics Agency

As can be seen from the table, the country is rapidly developing its physical infrastructure and traditional industrial base (more than 56 percent when manufacturing, energy, and mining sectors are included). However, the total share of education, healthcare, and ICT sectors in the investment portfolio, which are considered the foundation of a modern knowledge-based economy, remains relatively low (7.4 percent). In order to ensure sustainable economic growth, it is necessary to



reorient investment attraction mechanisms towards high-tech innovative sectors in the future.

Regional Investment Policy and the Role of Free Economic Zones

Regional economic asymmetry is evident in the regional distribution of foreign investment. The bulk of enterprises with foreign direct investment are located in Tashkent city and Tashkent region, where logistics infrastructure is developed. In order to eliminate territorial imbalances and increase the industrial potential of remote regions, the network of Free Economic Zones (FEZs) and Special Industrial Zones has been expanded in the country.

Within the regions, the Navoi FEZ is leading in terms of investment. This is explained by the fact that this zone is located at the crossroads of transport corridors and has direct access to the international intermodal logistics center. The Angren, Urgut and Syrdarya free economic zones also act as important investment drivers in the second stage. On the contrary, in economic zones such as Chorvok, Kokand and Jizzakh, it is necessary to strengthen regional marketing tools to increase the coefficient of capital accumulation.

As part of the state's incentive for the activities of FEZs, a system of progressive tax incentives has been introduced in accordance with regulatory legal acts and the Tax Code. This mechanism determines the duration of the tax holiday granted to the investor in close connection with the size of the financial obligation made:

Table 2 The system of investment incentives and fiscal privileges in the Republic of Uzbekistan

Amount of foreign investment (USD)	Full tax exemption period	Types of mandatory taxes for which the benefit is applied
From \$300,000 to \$3 million	For 3 years	Property tax, land tax and water resource use tax
From \$3 million to \$5 million	For 5 years	Property tax, land tax and water resource use tax
From \$5 million to \$10 million	For 7 years	Property tax, land tax and water resource use tax
When above \$10 million	For 10 years	Property tax, land tax and water resource use tax

Source: Systematized based on the Tax Code and current regulatory acts

This proportional incentive model encourages long-term and large-scale capital investments while reducing initial operational risks for investors. However, based on



sustainable development goals, it is more effective to differentiate this system of incentives not only based on the size of the investment, but also based on the level of innovation of the technology being introduced.

International Investment Attractiveness and Branding Marketing Strategies

In the current era of extremely intense competition in international capital markets, it is important to correctly and effectively communicate to the outside world (communication) the internal reforms being implemented to improve the country's investment climate. The investment attractiveness of a country is determined not only by objective macroeconomic indicators, but also by the subjective perceptions of the international community and transnational corporations about this environment, that is, by the country's brand.

To strategically increase the investment attractiveness of Uzbekistan, the following conceptual directions are proposed:

First, modernize the national investment narrative. Uzbekistan should change its image in the international arena from the traditional concept of "agro-industrial economy in transition" to the direction of "Innovation center of Central Asia dynamically integrated with digital technologies" (Digital Regional Hub). In this regard, it is necessary to highlight the opportunities of Information Technologies and the IT Park on a global scale through professional channels such as Bloomberg, Reuters, and LinkedIn in the form of active targeted marketing campaigns.

Secondly, digitalization of legal and institutional infrastructure. In order to eliminate bureaucratic obstacles to business processes, it is necessary to completely transfer all procedures regulating the activities of foreign investors (registration, licensing, customs and tax administration) to a single digital investment platform based on blockchain technology. This will minimize the human factor and fundamentally eliminate corruption risks.

Thirdly, the creation of alternative and transparent mechanisms for resolving disputes. The greatest risk for foreign transnational capital is the non-fulfillment of contracts and uncertainties in the judicial system. Based on the experience of Dubai or Astana, it is advisable to establish an independent International Commercial Court that would consider commercial disputes within the framework of large investment projects and operate on the basis of international law (for example, English Common Law).



Fourthly, strengthening economic diplomacy and the “Aftercare” system. It is necessary to turn the country's embassies and trade missions abroad into the main link in investment marketing, assigning them specific target KPI indicators. At the same time, the most effective marketing tool is to establish a systematic monitoring mechanism ("investor care") that supports the activities of investors entering the country and promptly resolves their problems.

Conclusion

Optimization of mechanisms for attracting international investment is a fundamental condition for structural transformation and modernization of the Uzbek economy. The conducted systematic analysis shows that positive changes in tax and currency policy have made it possible to create a stable industrial foundation. Although traditional production is predominant in the structure of industries, the development of the digital infrastructure of the economy and human capital remains one of the most important tasks in the future.

To maintain long-term stability of international investment flows, it is necessary to gradually move from traditional fiscal incentives (tax incentives) to systemic and institutional agility. The independence of the judicial system, the inviolability of property rights, the full digitalization of the bureaucratic apparatus, and the fair distribution of risks in the public-private partnership system will reduce the risk premium required by investors. The consistent implementation of these complex strategic reforms will sharply increase Uzbekistan's attractiveness in the global financial dialogue and guarantee the country's stable and inclusive economic growth.

References

1. Dunning, J. H. (2001). The Eclectic (OLI) Paradigm of International Production: Past, Present and Future. “International Journal of the Economics of Business,” 8(2), 173-190.
2. Statistics Agency under the President of the Republic of Uzbekistan. (2024). “Annual Report on Foreign Direct Investment Inflows and Sectoral Distribution”. Tashkent, Uzbekistan: Stat.uz.
3. National Database of Legislation of the Republic of Uzbekistan. (2019). “Tax Code of the Republic of Uzbekistan” (Updated 2024). Tashkent: Lex.uz.



4. Brewer, A. (2010). "The Making of the Classical Theory of Economic Growth" (Covering the international trade and capital theories of Smith, Ricardo, and Mill). London: Routledge.
5. United Nations Conference on Trade and Development (UNCTAD). (2023). "World Investment Report: FDI Trends in Transition Economies". Geneva: United Nations.
6. World Bank Group. (2022). "Uzbekistan Country Economic Memorandum: Toward a New Economy and Favorable Investment Climate". Washington, DC: World Bank.
7. Asian Development Bank (ADB). (2023). "Asian Development Outlook: Economic Trends and Regional Investment Prospects in Central Asia". Manila: ADB.
8. Abdullaev, Z., & Rakhimov, M. (2021). The impact of Free Economic Zones on regional industrial development: Evidence from Navoi and Angren FEZs. "Central Asian Journal of Economics and Management", 14(3), 45-62.
9. Eshniyozov, D., & Turaeva, M. (2022). Digital infrastructure, institutional reforms, and foreign direct investment in transition economies. "Journal of Asian Finance, Economics and Business", 9(1), 112-128.
10. Khasanov, R. (2023). Enhancing the national investment brand and economic diplomacy in Uzbekistan. "International Journal of Economic Policy in Emerging Economies", 16(2), 201-215.