

FOREIGN DIRECT INVESTMENT AS A DRIVER OF SUSTAINABLE ECONOMIC DEVELOPMENT IN UZBEKISTAN

Isomidinova Mohizarkhon Gofurjon kizi

Master's student of IIAU

Abstract: This study explores the pivotal role of Foreign Direct Investment (FDI) in promoting sustainable economic development in Uzbekistan, especially in alignment with the United Nations Sustainable Development Goals (SDGs). The research combines theoretical analysis of FDI types, global policy frameworks, and Uzbekistan's investment trends with empirical evaluation using economic indicators and econometric modeling. Findings indicate that while FDI inflows have significantly increased, especially in strategic regions, their effectiveness depends on factors such as investment structure, technological transfer, institutional environment, and SDG alignment. The study proposes a framework for evaluating FDI effectiveness and suggests policy directions to enhance its contribution to national development.

Keywords: Foreign Direct Investment, Uzbekistan, Sustainable Development Goals, Investment Efficiency, Economic Growth, Technology Transfer, Econometric Analysis

Introduction

The linkage between sustainable impact and foreign direct investments has been revived through the introduction of the SDGs¹. However, the linkage between impact and investment emerged already several decades ago. In recent decades, Foreign Direct Investment (FDI) has emerged as a vital instrument in achieving sustainable economic growth, particularly in developing economies like Uzbekistan. The UN's Sustainable Development Goals (SDGs) have renewed focus on leveraging private capital to address global development gaps, particularly in infrastructure, energy, and technology. Despite the increasing volume of FDI globally, there remains a disconnect between investment initiatives and measurable sustainable impact. Uzbekistan has seen a rise in FDI inflows, but their effectiveness and alignment with development priorities warrant a deeper investigation.

Methods

The study adopts a mixed-methods approach that combines:

- A theoretical review of global FDI trends, classification, and their role in SDG attainment.
- A quantitative analysis of Uzbekistan's FDI trends using government statistics (2020–2024), with regional disaggregation.

Results

Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate).

In general, there are several different types of FDI being distinguished when determining the contribution of FDI to economic growth. The first and most common type of FDI is Greenfield FDI, where the foreign investors deploy capital into an FDI project building a subsidiary of the parent company in a foreign company. This type of FDI is often seen in global expansion processes, an increase of branch operation networks as well as manufacturing sites. Foreign

¹ E.Castellas, J. Ormiston, S.Findlay Financing social entrepreneurship: The role of impact investment in shaping social enterprise in Australia, Social Enterprise Journal, 2018-y, 130-155b.

direct investment is usually characterized by the foreign investor acquiring a minimum 10% stake of the voting rights in the company. If the facility in the foreign country exists already and the investor decides to deploy capital by investing into the existing facility or organization, this is what is considered a Brownfield investment or Brownfield FDI.

Besides those two traditional types of FDI, there are other forms, which are usually linked to the rationale the foreign investor has. To gain market entry, foreign investors tend to choose mergers and acquisitions (M&A) as a quite common mode of FDI. Acquisitions have several advantages compared to a Greenfield investment. The foreign investor can benefit from existing company infrastructures, staff, supply chains and tap into the local market knowledge and market share the company already has. M&A investments are usually done by investors, which operate in the same similar sector as the company which is acquired.

A major aspect for this research project, where FDI is being studied as the main driver to reach the SDGs is the knowledge and technology transfer of Foreign Direct Investment. There are several distinct aspects, which should be highlighted in this regard. One of them is what is known as technology spill over. The technology gap between the foreign investor and the local company is involuntarily being bridged between the two companies. This, however, can go two separate ways. First, an investor purposely invests in a company with a high technology component to cause a technology spill over and drain intellectual property. In other words, the investor will benefit from the knowledge and technology the company he is investing in has, without investing any additional money in research & development, as the company, which is acquired, already did that part. This dynamic can especially be seen from investors in Eastern Asia, which try to trigger a technology transfer to their home country by utilizing technology spill overs through FDI.

The clear link between the SDGs and FDI is a key element and driver to achieve the SDG agenda is the main statement UNCTAD has made in its World Investment Report.

The key question hereby is what makes an investment sustainable and how can it be avoided that one single impact factor such as economic growth does not negatively affect other impact considerations such as the environment or social impact. One idea of achieving this is through a definition, which is: " ... commercially viable investment that makes a maximum contribution to the economic, social and environmental development of host countries and takes place in the framework of fair governance mechanisms".

The complexity of FDI as a financing method, in relation to its impact, requires this research project to highlight all elements of FDI besides the basic definitions. Capital flows to the recipient country through alternative or indirect channels is often a key aspect for developing countries, especially those which offer highly attractive tax incentives.

Furthermore, FDI attraction to achieve sustainable economic growth in developing countries to reach the SDG goals also means to build innovative methods to compile new investor incentives, which are backed by a government strategy that focuses on enhancing the individual location as an FDI destination with global recognition.

Per Capita Investment in Fixed Capital in Uzbekistan

The volume of per capita investment in fixed capital in the Republic of Uzbekistan averaged 5,834.6 thousand UZS in 2019, 6,140.3 thousand UZS in 2020, and 6,861 thousand UZS in 2021. This figure increased to 7,468.6 thousand UZS in 2022 and reached 9,778.8 thousand UZS in 2023. Figure 1 below presents the data by regions.

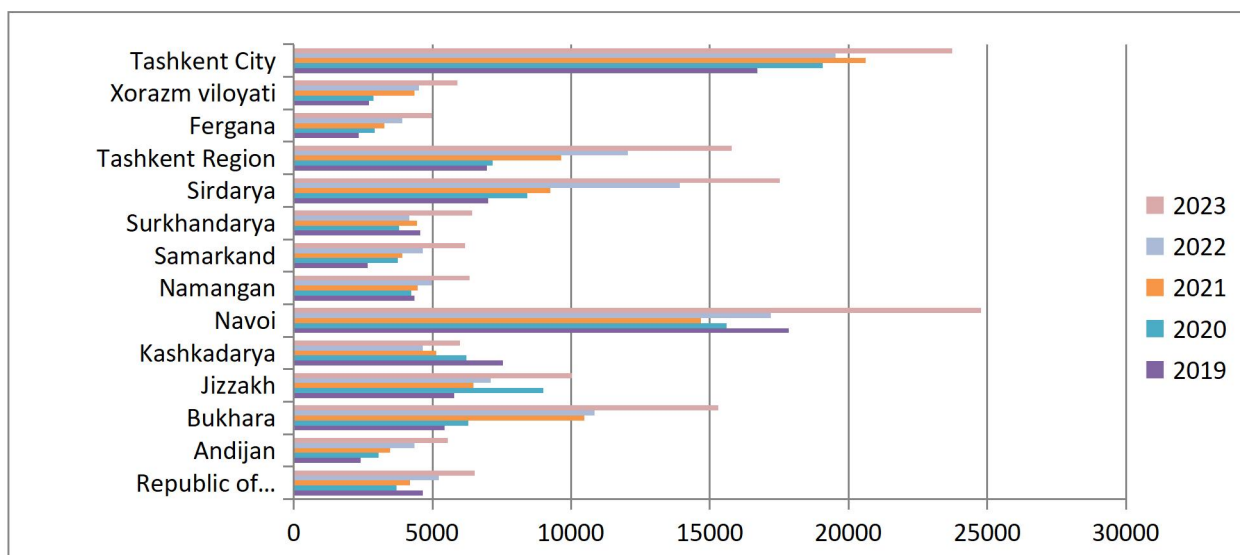


Figure 1. The volume of per capita investment in fixed capital in the Republic of Uzbekistan

Figure 1 shows the annual per capita investment in fixed capital (in thousand UZS) across various regions of Uzbekistan from 2019 to 2023. The data reveal significant regional disparities in investment levels, with Tashkent city consistently recording the highest per capita investments. Fixed capital investments are one of the key indicators of a country's economic development. This table allows for analysis of regional changes in investment volume from 2019 to 2023.

During this period, there was a general upward trend in investment volume. Notably, major industrial centers such as Tashkent city, Navoi, and Bukhara regions experienced significant growth. Economic growth rates and redistribution of investments led to sharp changes in some regions.

Tashkent City: Investment volume increased from 42,458 billion UZS in 2019 to 71,143 billion UZS in 2023. This sharp rise reinforces its status as the nation's economic hub.

Navoi Region: Investment rose from 17,646.3 billion UZS in 2019 to 26,398.1 billion UZS in 2023. As a major industrial center, Navoi attracts investors with its large production capacities.

Bukhara Region: Investment increased from 10,366.6 billion UZS in 2019 to 31,030.5 billion UZS in 2023. The region's industries based on gas, oil, and other natural resources are key drivers of this growth.

Republic of Karakalpakstan: Investments rose from 8,750.6 billion UZS in 2019 to 12,959.2 billion UZS in 2023. Although the growth has been moderate, positive trends are observed due to improved economic conditions and infrastructure projects.

Syrdarya Region: Investment rose from 5,869.1 billion UZS in 2019 to 15,871.8 billion UZS in 2023. Although traditionally lagging in investment, the region has recently gained momentum due to state infrastructure programs.

Jizzakh Region: Investment increased from 7,900.9 billion UZS in 2019 to 14,970.9 billion UZS in 2023, reflecting an average level of investment growth.

To analyze investments more thoroughly, per capita investment figures offer a clearer picture of regional economic disparities.

The highest per capita investment was recorded in Navoi region in 2023, amounting to 24,778.1 thousand UZS, attributed to its strong industrial base and high economic activity.

The lowest per capita investment was in Fergana region, with only 4,965.3 thousand UZS in 2023, making it one of the regions with the least investment per person.

Overall, investment volumes across Uzbekistan have been growing. Improving the investment climate and attracting new investors can help ensure balanced development across all regions.

Statistical data from 2020–2024 reveal a steady increase in both total and foreign investment in Uzbekistan, particularly in the capital city of Tashkent and several industrial regions. In 2023, foreign investment accounted for over 68% of capital investment, marking a significant rise from 53% in 2022.

Key empirical findings include:

- Direct production-related investment efficiency rose by 5.3% from 2021 to 2022.
- Investment in fixed assets increased by 5.3%, while working capital investment surged by over 60%.
- Despite these gains, efficiency in working capital use declined, suggesting areas of inefficiency or capital misallocation.
- A chain-linked decomposition model revealed that the largest positive contributors to investment efficiency were the proportion of investment in fixed assets and their share in total investment.

Discussion

FDI in Uzbekistan has shown promising trends, but its sustainability depends on more than capital influx. A key finding is that technological transfer, particularly through joint ventures and mergers/acquisitions, has had a tangible positive impact on local firms. However, the lack of a comprehensive SDG-aligned investment framework limits full realization of these benefits. International evidence supports that FDI leads to productivity growth, employment creation, and infrastructure development when supported by conducive policy environments. Uzbekistan's legal reforms and economic liberalization have opened new avenues, but institutional bottlenecks such as bureaucracy and sectoral imbalance persist.

Conclusion

This research confirms that FDI is a significant catalyst for achieving sustainable development in Uzbekistan, particularly when strategically channeled into key sectors. To improve the efficacy of FDI:

- National investment frameworks should be directly aligned with the SDG agenda.
- Policies should promote transparency, support local innovation, and offer tailored incentives for technology-driven investments.
- Efficiency evaluation mechanisms must be standardized and embedded in national development monitoring.

By addressing existing limitations and fostering investor confidence, Uzbekistan can better harness FDI as a force for inclusive and sustainable growth.

References

1. Sauvart, K. P., & Mann, H. (2017). FDI Sustainability Characteristics. Columbia Center on Sustainable Investment.
2. UNCTAD. (2020). World Investment Report.
3. Ang, J. B. (2010). FDI, financial development and output growth in Malaysia. *Economic Modelling*, 27(2), 295–300.
4. Kalotay, K. (2012). Indirect FDI. *The Journal of World Investment & Trade*, 13(4), 542.
5. Kayalvizhi, P., & Thenmozhi, M. (2018). Does innovation drive FDI? Evidence from emerging markets. *Emerging Markets Review*, 36, 175–191.
6. Kinoshita, Y. (2000). R&D and technology spillovers through FDI. CERGE-EI.