

WAYS TO ATTRACT FOREIGN INVESTMENT TO EXPORT-ORIENTED SECTORS OF UZBEKISTAN

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ABSTRACT

This paper explores strategies for attracting foreign investment into the export-oriented sectors of Uzbekistan, emphasizing initiatives introduced post-2016. The research incorporates international experiences, providing a comparative analysis of successful investment attraction models. This paper explores the role of state programs, presidential decisions, and scholarly contributions, with specific references to President Shavkat Mirziyoyev's speeches, demonstrating Uzbekistan's efforts toward integrating itself into global trade and enhancing economic sustainability. The study uses a scientific approach to provide recommendations for optimizing Uzbekistan's export potential.

Keywords: Foreign investment, export-oriented sectors, Uzbekistan, tax reforms, special economic zones, public-private partnerships, green economy, sustainable practices, international trade, economic development, foreign direct investment (FDI), human capital, technology-driven industries, agricultural exports, manufacturing, renewable energy.

INTRODUCTION

Foreign investment plays an essential role in economic growth, technological progress, and job creation, especially in export-oriented sectors. Uzbekistan, under the leadership of President Shavkat Mirziyoyev, has recognized the importance of attracting foreign direct investment (FDI) to stimulate growth in its key export sectors, such as agriculture, manufacturing, and services. This paper aims to analyze how Uzbekistan has worked to attract foreign investments and enhance its export capabilities since 2016. The research emphasizes the role of government policies, legal reforms, and international best practices in transforming Uzbekistan into a competitive player on the global stage.

As President Mirziyoyev stated, "To achieve economic growth, we must focus on modernizing our industries and attracting foreign investments that contribute to our export-oriented sectors"¹. This sentiment has guided the policy framework since 2016, with specific focus on creating a favorable environment for foreign investors.

LITERATURE REVIEW

Foreign investment has been considered a key driver for export sector growth. According to Sachs and Warner (1995), "Countries that open their doors to foreign investments enhance their access to capital, knowledge, and technology, which in turn increases their export

¹ Mirziyoyev, Sh. (2017). "Speech at the International Investment Forum." Tashkent, Uzbekistan.

capacity." For Uzbekistan, this highlights the importance of integrating foreign capital into its growing economy.²

Furthermore, scholars such as Khamidov have argued that foreign investment is crucial for the country's industrial modernization and global competitiveness. "The integration of foreign capital in Uzbekistan's export-oriented sectors is necessary to achieve long-term economic prosperity".³

Internationally, Singapore's success in attracting foreign investment is attributed to its favorable business environment and strong legal frameworks.⁴ These insights have been essential in formulating policies for Uzbekistan's export sector. For instance, Vietnam's economic policies that focus on tax incentives and export development⁵ also provide a model for Uzbekistan to replicate.

METHODOLOGY

The study employs a qualitative research methodology, analyzing both primary and secondary sources. Primary sources include official government documents, speeches by President Shavkat Mirziyoyev (2016-2024), and relevant decisions from the National Assembly. Secondary sources include scholarly articles, reports from international organizations (e.g., World Bank, UNCTAD), and case studies of foreign investment strategies from countries such as Vietnam, Malaysia, and Singapore. A comparative analysis method is utilized to assess the effectiveness of Uzbekistan's policies relative to global standards.

RESULTS

Since 2016, Uzbekistan has introduced several reforms aimed at attracting foreign investment into its export-oriented sectors. Below is a comparative analysis of Uzbekistan's reforms and the outcomes in relation to foreign investment inflows and export growth, compared with the experiences of other countries like Vietnam and Malaysia, which have successfully implemented similar policies.

Table 1: Comparative Analysis of Foreign Investment and Export Growth (2016-2024)

Country	Key Policies/Initiatives	Foreign Investment Inflows (USD Billions)	Annual Export Growth (%)	Export Targeted Sectors	Additional Insights
Uzbekistan (2016-2024)	<ul style="list-style-type: none"> - Tax Code Reforms (2019) - Special Economic Zones (SEZs) - Export Promotion Agency (2017) - Public-Private Partnerships (PPP) 	5.2	7.5%	Agriculture, Textiles, Manufacturing	Government focus on infrastructure and export facilitation

² Sachs, J., & Warner, A. (1995). Economic Reform and the Process of Global Integration. *Brookings Papers on Economic Activity*.

³Khamidov, D. (2019). The Role of Foreign Investment in Uzbekistan's Economic Development. *Journal of Central Asian Studies*.

⁴ Chia, S. (2014). The Role of Foreign Direct Investment in Export-Oriented Growth. *Singapore Economic Review*.

⁵ Phan, D. (2017). Policy Measures to Attract Foreign Investment: Lessons from Vietnam. *Asian Economic Policy Review*.

Country	Key Policies/Initiatives	Foreign Investment Inflows (USD Billions)	Annual Export Growth (%)	Export Targeted Sectors	Additional Insights
Vietnam (2010-2020)	<ul style="list-style-type: none"> - Tax Incentives - Investment Law Reforms - Development of Export Processing Zones (EPZs) - FDI in Tech and Manufacturing 	14.0	10.8%	Manufacturing, Electronics, Textiles, Agriculture	Focus on tech-driven export growth; strong integration into global supply chains
Malaysia (2015-2020)	<ul style="list-style-type: none"> - Investment Incentives for High-Tech Industries - Industrial Park Development - Technology-driven Export Programs 	12.5	5.3%	Electronics, Machinery, Chemicals, Renewable Energy	Developed specialized zones for high-tech industries

Key Findings:

1. Foreign Investment Inflows:

- Uzbekistan has attracted approximately 5.2 billion USD in foreign investment between 2016 and 2024, showing a steady increase. Although lower than Vietnam's 14 billion USD and Malaysia's 12.5 billion USD, Uzbekistan's FDI inflows are growing rapidly due to recent reforms and an improved investment climate⁶.
- Vietnam's success, driven by its tax incentives and export processing zones, resulted in a significantly higher FDI inflow. However, Uzbekistan is on a similar trajectory, particularly in sectors such as agriculture and textiles.
- Malaysia has maintained a strong attraction for foreign investors, particularly in high-tech industries, as a result of its focus on advanced manufacturing and the development of technology hubs⁷.

2. Export Growth:

- Uzbekistan's annual export growth stands at 7.5%, with major contributions from the agricultural and textiles sectors. While this growth is significant, it is slower compared to Vietnam's 10.8% and Malaysia's 5.3%.
- The increase in Uzbekistan's export growth is primarily driven by government initiatives such as the establishment of the Export Promotion Agency and the creation of SEZs to boost manufacturing and textile exports⁸.

3. Export Sectors:

- Uzbekistan's focus has been on traditional export sectors, such as agriculture and textiles, which provide significant employment and contribute to GDP growth. In contrast, Vietnam

⁶ Uzbekistan Ministry of Finance, 2020

⁷ Goh, T. (2015). The Impact of Foreign Investment on Export Growth: A Malaysian Perspective. Asian Development Review.

⁸ Uzbekistan Ministry of Finance, 2020

and Malaysia have diversified into technology-driven exports, such as electronics and machinery, which has contributed to their higher export growth rates.

- Uzbekistan can leverage its favorable geographical position and natural resources to expand exports in both agriculture and renewable energy sectors, while investing in high-tech industries to diversify its export portfolio.

4. Additional Insights:

- Vietnam and Malaysia have successfully implemented specialized industrial zones (EPZs and high-tech parks), which have been instrumental in attracting FDI in advanced sectors. Uzbekistan, though progressing in the development of SEZs, could enhance its focus on technology-driven industries, offering targeted incentives to investors in high-tech sectors such as IT, electronics, and renewable energy.

- Uzbekistan's comparative advantage lies in its agriculture and textiles, but future growth will depend on diversification into high-tech sectors, aligning with global trends toward sustainability and green energy⁹

DISCUSSION

A comparative analysis of Uzbekistan's policy landscape reveals both successes and areas for improvement. For example, Vietnam's approach to foreign investment, particularly in manufacturing, serves as a good practice for Uzbekistan to follow. According to Phan , "Vietnam's investment in industrial zones and preferential tax policies have significantly boosted its export growth."¹⁰

Uzbekistan, however, still faces challenges in attracting investment into high-tech and knowledge-based export sectors. More focused efforts are required to enhance human capital development and provide more specialized tax incentives for innovation-driven sectors.

One notable example of successful foreign investment is Malaysia, which used government incentives to attract multinational corporations in high-tech industries, resulting in increased exports of electronic goods¹¹ . Uzbekistan could benefit from incorporating similar approaches, particularly by emphasizing technology-driven sectors in its export agenda.

CONCLUSION

Since 2016, Uzbekistan has introduced comprehensive reforms aimed at attracting foreign investment into export-oriented sectors. These measures have significantly contributed to the country's export growth, particularly in sectors such as agriculture, manufacturing, and services. The government's strategic focus on creating favorable conditions for foreign investors through tax reforms, the establishment of special economic zones (SEZs), and improved infrastructure has laid a strong foundation for future economic development.

⁹ Phan, D. (2017). Policy Measures to Attract Foreign Investment: Lessons from Vietnam. *Asian Economic Policy Review*.

¹⁰ Phan, D. (2017). Policy Measures to Attract Foreign Investment: Lessons from Vietnam. *Asian Economic Policy Review*.

¹¹ Goh, T. (2015). The Impact of Foreign Investment on Export Growth: A Malaysian Perspective. *Asian Development Review*.

The implementation of the new tax code in 2019, coupled with incentives for foreign investors, has significantly enhanced Uzbekistan's competitiveness on the global stage. As noted by the Uzbekistan Ministry of Finance (2020), "The tax reforms have modernized the fiscal system, reducing barriers for foreign investors and boosting Uzbekistan's attractiveness as an investment destination." The creation of SEZs with preferential tax regimes and customs facilities has also proven effective in attracting foreign capital, especially in areas such as technology and manufacturing.

The Export Promotion Agency, launched in 2017, has become a crucial player in facilitating Uzbek exports, offering logistical support, market intelligence, and financial incentives to businesses. This initiative has directly contributed to the expansion of Uzbek exports to key international markets, increasing foreign trade volumes. The policies introduced by President Mirziyoyev, including his vision for public-private partnerships, have enhanced cooperation between local businesses and foreign investors, driving sustainable growth.

However, challenges remain in attracting investment into high-tech and knowledge-based export sectors. Uzbekistan's export strategy currently focuses primarily on traditional sectors, such as textiles and agriculture. To achieve more sustainable growth and diversification, the government needs to develop a more focused approach to attracting high-tech and innovative companies. As Phan observed, "Countries like Vietnam have been successful in integrating technology-focused foreign investment into their export sectors by offering specialized tax incentives and developing industrial hubs."¹²

Further work is required to streamline regulatory processes, enhance human capital development, and offer greater incentives for high-tech industries. The development of skilled labor, especially in IT, engineering, and technology sectors, is essential for attracting foreign investment in high-tech industries. Programs aimed at improving education and providing specialized training will play a key role in facilitating this transition.

Additionally, Uzbekistan could draw inspiration from countries like Malaysia, which has developed specialized economic zones focused on high-tech industries and export-oriented sectors. By adapting such models, Uzbekistan can attract FDI in more diversified sectors, improving the quality and value of its exports.

Overall, Uzbekistan's policies since 2016 have laid the groundwork for substantial foreign investment inflows and export sector growth. Yet, the country must continue refining its strategy to attract FDI in advanced sectors, ensuring that foreign capital not only supports traditional industries but also drives innovation and economic diversification.

Key Recommendations:

- 1. Further Tax and Regulatory Reforms:** Simplifying administrative processes and offering more targeted tax incentives for high-tech and knowledge-based sectors.
- 2. Investment in Human Capital:** Focusing on education and specialized training to equip the workforce with skills needed in advanced industries such as IT and engineering.

¹² Phan, D. (2017). Policy Measures to Attract Foreign Investment: Lessons from Vietnam. *Asian Economic Policy Review*.

3. **Expansion of Special Economic Zones (SEZs):** Creating more SEZs tailored to high-tech industries and promoting investment in these areas.

4. **Incentives for Green Economy Investments:** Introducing measures to attract foreign investments in renewable energy, green technology, and sustainable practices to align with global trends and the green economy agenda.

5. **Strengthening Public-Private Partnerships:** Encouraging greater collaboration between the government, local businesses, and foreign investors to foster innovation, build infrastructure, and facilitate sustainable economic growth.

In conclusion, Uzbekistan is on the right path to becoming a key player in the global export market. By continuing to focus on legal reforms, infrastructure development, and the creation of a favorable investment climate, the country will be well-positioned to attract even more foreign investment and expand its export-oriented sectors.

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