



### ANALYSIS OF THE BENEFITS AND CHALLENGES IN ATTRACTING FOREIGN INVESTMENT TO THE REPUBLIC OF UZBEKISTAN

Sultabaeva Munira Bahodirovna

DSc. Associate Professor

Department of Social and Economic Disciplines,  
Turin Polytechnic University in Tashkent

Pulatova Mokhira Bakhtiyorovna

PhD. Associate Professor

Department of Finance, Tashkent Institute of Finance

#### ABSTRACT:

Attracting foreign investment is one of the most important aspects influencing the country's economic progress. There is an issue of insufficient attracted foreign investment in the Republic of Uzbekistan, as well as in other nations. This article examines the benefits and drawbacks of bringing foreign investment to Uzbekistan.

**Keywords:** investment, business, finance, industry, export, company, technology, risk, production.

Foreign investment is significant in the Uzbek economy since it may supply the required capital for the development of various sectors of the economy as well as boost labor productivity, so contributing to overall economic growth.

Among the advantages of foreign investment in Uzbekistan are the following

1. Attracting new technology and knowledge that can improve product quality and productivity;
2. The development of new industries and the creation of new jobs;
3. Improved infrastructure, thereby reducing the costs of transporting and marketing goods;
4. Increasing export opportunities and expanding the market for products;
5. Enhancing the competitiveness of local companies and international business development;

In recent years, the Uzbek government has taken steps to attract foreign investment by simplifying business registration procedures and providing tax incentives for foreign investors. The most attractive sectors for foreign investment in Uzbekistan are the textile, food (food processing) and chemical industries, as well as agriculture, furniture production and tourism (Table 1). Large investors from China, Russia, South Korea, Turkey and other countries are already investing in these sectors.

**Table 1**



**Manufacture of industrial products by type of economic activity<sup>1</sup>**

Indicators	2021-01	2021-03	2021-05	2021-07	2021-09	2022-01	2022-03	2022-05	2022-07	2022-09	2023-01
<b>Volume of industrial production, UZS billion</b>	<b>26 766,6</b>	<b>91 530,5</b>	<b>160 035,3</b>	<b>233 758,0</b>	<b>314 843,5</b>	<b>32 918,1</b>	<b>113 990,2</b>	<b>196 894,7</b>	<b>293 026,1</b>	<b>391 948,4</b>	<b>33 575,4</b>
Mining and quarrying	3 221,4	9 476,0	16 008,6	22 464,5	29 836,3	3 835,2	12 284,6	19 940,0	28 178,9	38 211,5	4 384,2
<b>Manufacturing industry</b>	<b>20 487,8</b>	<b>73 359,9</b>	<b>130 525,6</b>	<b>192 781,7</b>	<b>261 335,0</b>	<b>25 660,6</b>	<b>91 730,6</b>	<b>161 754,4</b>	<b>242 779,6</b>	<b>324 868,7</b>	<b>25 459,2</b>
Manufacture of food products	2 995,9	9 880,0	16 850,7	25 221,2	35 118,9	3 338,7	10 808,7	19 766,7	30 407,5	41 863,0	4 134,5
Beverage industry	409,5	1 654,8	3 118,9	5 117,3	7 560,3	535,9	2 211,0	3 828,9	8 137,0	11 966,2	575,4
Manufacture of textiles	3 354,6	11 528,7	18 810,8	25 955,4	34 339,6	4 503,3	14 504,5	23 805,2	33 974,7	43 001,8	4 042,1
Manufacture of wearing apparel	680,9	2 412,9	4 253,6	6 486,1	9 373,9	715,5	2 837,0	5 047,5	8 348,9	11 497,4	1 007,6
Manufacture of wooden and cork products, (except furniture), products made of straw and plaiting materials	80,9	317,2	582,0	1 011,3	1 619,5	90,5	473,4	738,3	1 222,2	1 829,6	90,3
Manufacture of chemical products	1 644,3	5 886,0	10 158,9	14 959,0	19 469,3	1 970,7	6 812,7	11 978,4	18 122,2	24 572,4	1 624,1
Manufacture of basic pharmaceutical products and preparations	130,4	417,1	835,6	1 352,0	2 814,6	657,4	1 195,1	1 610,5	2 090,1	2 591,5	157,2
Furniture manufacture	109,5	473,2	823,4	1 189,8	1 875,2	113,0	473,1	923,8	1 390,9	2 101,3	159,5
Manufacture of other finished products	88,6	300,7	578,5	924,1	1 304,7	118,6	428,1	746,8	1 097,7	1 455,2	156,0

To begin, it should be emphasized that Uzbekistan has substantial resources that enable interesting initiatives. It has a particularly rich natural heritage, which includes coal, oil, gas, rare metals, gold, and other important minerals. Uzbekistan also boasts major industrial businesses capable of offering goods and services to both domestic and international markets. Despite the availability of significant resources, Uzbekistan has struggled to fully harness its economic prospects due to a lack of finance and technology. Foreign investment becomes one of the most significant variables in this context.

However, it is important to note that attracting foreign investment can be a challenge for local entrepreneurs and SMEs, who may face competition from foreign companies. Therefore, the government of Uzbekistan should strive to create conditions for local business development and ensure equal opportunities for all market participants.

<sup>1</sup> Stat.uz



In 2020, foreign direct investment in Uzbekistan amounted to about USD 3.3 billion, 24% more than in 2019<sup>2</sup>. According to the Central Bank of Uzbekistan, the textile, food, chemical, energy and telecommunication sectors attracted the most investment.

In recent years, the government of Uzbekistan has taken measures to improve the investment climate and attract foreign investors. In particular, there have been reforms in taxation and the banking sector, and procedures for business registration and obtaining construction permits have been simplified.

Although Uzbekistan is actively attracting foreign investment, there are certain problems that may hinder this process:

1. Low transparency of the investment process: In Uzbekistan, the investment process is not always transparent, which may reduce investor confidence and hinder their decision to invest in the country,
2. Low level of legal protection: despite some recent improvements in the legal sphere, there are still some problems with legal protection of investors' rights in Uzbekistan
3. Lack of understanding of local culture
4. Inefficient bureaucratic procedures: investors often face problems in obtaining permits and licences and in registering their companies.
5. Lack of infrastructure: Lack of sufficient infrastructure (roads, bridges, power grids, etc.) can be an obstacle for investors looking to invest in projects in sectors such as transport, logistics, manufacturing, etc.

At present, the territorial structure of the country remains uneven in terms of attracting foreign investment in terms of the regional structure of the country. High specific weight in distribution of investments have regions with favorable geographical location, industrial centres with developed infrastructure - Tashkent city, Tashkent region, Navoi region, as well as Kashkadarya region where projects of strategic importance are financed, while regions specializing in production of agricultural products - such as Syrdarya, Khorezm and Djizak regions - have low specific weight in absorption of foreign investments. (Table 2)

**Table 2 Investments in fixed assets<sup>3</sup>**  
(in actual prices, billion soums)

	2016	2017	2018	2019	2020	2021
<b>Republic of Uzbekistan</b>	<b>51232,0</b>	<b>72155,2</b>	<b>124231,3</b>	<b>195927,3</b>	<b>210195,1</b>	<b>239552,6</b>
Republic of Karakalpakstan	3778,3	2822,0	6757,8	8750,6	7089,8	8110,7
<i>area:</i>						
Andijan	2188,5	2986,0	4711,9	7452,1	9622,6	11176,6
Bukhara	5922,9	11613,4	9610,9	10366,6	12183,9	20528,3
Jizzakh	1449,7	1788,2	3606,3	7900,9	12545,4	9233,6
Kashkadarya	7304,4	11175,3	16518,5	24462,5	20557,6	17359,1

<sup>2</sup> <https://cbu.uz/oz/>

<sup>3</sup> Stat.uz



Navoi	2963,2	3977,9	10579,5	17646,3	15688,4	15020,1
Namangan	2824,5	3586,7	8158,1	12084,9	12007,2	12982,0
Samarkand	3623,5	4384,2	7061,4	10266,7	14656,4	15641,6
Surkhandarya	2142,4	3551,0	7240,6	11835,1	10068,2	12037,8
Syrdarya	1322,9	1628,0	2699,3	5869,1	7191,9	8051,8
Tashkent	4238,7	5938,4	11226,9	20353,9	21148,6	28113,6
Ferghana	2643,6	2954,5	5539,1	8685,4	11040,0	12625,2
Khorezm	1560,5	2175,9	3013,8	5032,0	5391,8	8292,0
г. Tashkent	9268,9	13573,7	26435,7	42458,1	50371,3	58172,7

Investments in industries that are already profoundly reshaping the economy of Uzbekistan have huge potential. But, in addition to the promise, there is a significant danger, a component - the risk of the success of initiatives that appear amazing at this moment. However, considering the massive financial investments in development and the dizzying rate of technological growth, we can assume that the danger of these investments succeeding is simply a question of time.

Attracting foreign investment is one of the most difficult obstacles for Uzbekistan's economic development. To address this issue, the government is implementing a variety of steps, including:

1. Creating a favorable investment climate. As part of this measure, the government improves the legal framework, reduces bureaucratic procedures and makes it easier to do business.
2. Attracting foreign investors on favorable terms. To this end, the government provides tax incentives and other preferences, and guarantees the protection of investors' rights.
3. Infrastructure development. The government is developing transport, energy and communication infrastructure for the convenience of foreign companies.
4. Expansion of economic cooperation with other countries. The Government is actively negotiating with foreign partners to conclude new mutual cooperation agreements.
5. Implementation of major investment projects. The government attracts foreign investors to implement major projects in various economic sectors, such as energy, transport, textiles and food processing.

Overall, the Uzbek government is actively working to attract foreign investment and create a favorable investment climate, which should contribute to the country's economic development in the future.

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